[Entity]

Place, dd mm yyyy

**Subject: Report on factual observations concerning the financial justification report of <Name of the Entity> (civil society organisation or institutional entity), which is approved by the Directorate-General Development Cooperation and Humanitarian Aid (DGD)**

The provisions below constitute the terms and conditions of the mission (hereinafter “**terms of reference**”) on the basis of which the <name of the Entity> (civil society organisation or institutional entity) entrusts <name of auditor/statutory auditor>, represented by <representative of the statutory audit firm>, (hereinafter referred to as “**the Statutory Auditor**”) with the mission of undertaking agreed specific procedures relating to the financial justification report of <name of the Entity> concerning the period from <XXX> to <XXX> **(“the Period”)** of the programme running from XXXX to <XXXX> relating to the subsidy agreement financed by the DGD, reference number <XXXX> (**“Ministerial Order on the granting of the subsidy”**). You asked us to report on this to the DGD in implementation of Article 41 of the RD of 11 September 2016.

The DGD drew up the mission description but is not party to this agreement.

***Responsibilities of the parties involved in the mission***

The term “Entity” refers to the civil society organisation or institutional entity which is the beneficiary of the subsidy agreement that covers an activity. The term 'Entity' therefore covers the affiliated entity or entities of the Entity.

* The Entity must provide the statutory auditor with a financial justification report on the activity that is financed by the subsidy agreement in accordance with the terms and conditions of such an agreement and must ensure that this report corresponds to the accounting system and the accounts of the Entity. The Entity provides sufficient and accurate data – both financial and non-financial – to substantiate the financial report.
* The Entity acknowledges that the Statutory Auditor's competence to carry out the procedures required in this mission is actually dependent on full and unconditional access granted to him by the Entity and if necessary the affiliated entity or entities, to the staff, the accounting system and all documents and data that are necessary to carry out the agreed specific procedures.
* The 'Statutory Auditor' has the task of carrying out the agreed specific procedures as laid down in these terms of reference. The term 'Statutory Auditor' refers to the statutory audit firm with which an agreement is concluded to carry out this mission and submit a factual observation report to the Entity. The term 'Statutory Auditor' can mean the individual or individuals who carry out the audit, in general the partner who is responsible for the mission or other members of the mission team. The partner who is responsible for the mission is the partner or another individual from the statutory audit firm who bears responsibility for the mission and the report that is drawn up in the name of this statutory audit firm and who is a statutory auditor.

By signing these terms of reference, the Statutory Auditor confirms that he is a member of the Institute of Statutory Auditors.

***Object of the mission***

The aim of this mission is to establish the agreed specific procedures with regard to the verification of the financial justification report of <name of the Entity> concerning the Period from XXXX to <XXXX> with regard to the Ministerial Order on the granting of the subsidy.

***Reason for the mission***

In accordance with the subsidy agreement, the Entity must submit a factual observation report on the financial justification report to the DGD drawn up by a statutory auditor to justify the payment requested by the NGO in the context of the subsidy (see Appendix XX for the statutory provisions).

***Type of mission and objective***

The verification of the expenditures included in the financial justification report consists of carrying out agreed specific procedures listed in Appendix xxx of these terms of reference regarding the receipts and expenditures included in the financial justification report and the submission to the entity of a factual observation report concerning the agreed specific procedures carried out.

The aim of these agreed specific procedures is that the statutory auditor checks the factual data in the financial justification report of the entity and compares these with the conditions laid down in the subsidy agreement. As this mission does not imply any degree of certainty, the Statutory Auditor does not express any auditing opinion and does not provide any degree of certainty. The DGD assesses the factual observations reported by the Statutory Auditor and draws its own conclusions.

***Standards and ethics***

The Statutory Auditor carries out this mission:

* in line with the *International Standard on Related Services* (ISRS) 4400 '*Engagements to perform Agreed-upon Procedures regarding Financial Information*', as stated by the International Federation of Accountants (IFAC);
* in compliance with the provisions on ethics applicable in Belgium. These provisions set out the basic ethical principles for statutory auditors concerning integrity, objectivity, independence, professional competence, the obligation of caution and diligence, confidentiality, professional behaviour and technical standards, among other matters. Although ISRS 4400 does not stipulate independence as a criterion for the agreed missions, DGD requires that the Statutory Auditor be independent from the entity and fulfil the independence requirements as stipulated by the provisions on ethics applicable to statutory auditors in Belgium.

The fact that the Statutory Auditor is also the auditor of the Entity (among other things within the meaning of Articles 17, § 5, 37, § 5 and 53, § 5 of the act of 27 June 1921 on non-profit associations, international non-profit associations and foundations) does not affect the independence of the Statutory Auditor.

***Procedures, supporting papers and documentation***

The Statutory Auditor plans the activities in such a way that the financial justification report can be verified. The Statutory Auditor carries out the procedures listed in Appendix XX of these terms of reference ('*List of specific procedures to be carried out*') and applies the guidelines in Appendix 2B ('*Guidelines regarding the specific procedures to be carried out*'). The underlying supporting documents that must be used to carry out the procedures as defined in Appendix XX correspond to all financial and non-financial information on the basis of which the information declared by the Entity in the financial justification report can be verified. The Statutory Auditor uses the supporting documents thus obtained as a basis to draw up his factual observation report. The Statutory Auditor keeps in his work dossier the supporting documents that substantiate the factual observation report and demonstrate that the mission was carried out in accordance with ISRS 4400 and the terms of reference.

***Drawing up the report***

The factual observation report should provide a sufficiently detailed description of the aim, the agreed specific procedures and the factual observations of the mission to enable the Entity and the DGD to understand the nature and scope of the mission carried out by the Statutory Auditor and the factual observations that he makes.

This report must be sent by the Statutory Auditor to <name of the Entity> within a period of xx working days as of the date of signature of these terms of reference.

***Other terms and conditions***

The fees for carrying out the procedures as described above are estimated at approximately EUR xxxx excluding VAT and form/do not form part of the fees for the audit mandate, as defined by the General Meeting of the Entity on Xxx.

The costs (travel, per diem, accommodation etc.) of the Statutory Auditor for carrying out the procedures as described above are reimbursed to the Statutory Auditor in accordance with the following condition: XXXXX.

The auditor/Statutory Auditor is responsible for scheduling audit procedures and selecting the audited and/or affiliated entities.

Yours faithfully,

Accepted on behalf of <name of the Entity>

[name]

[Position]

APPENDIX:

1. List of the affiliated entity or entities of the Entity (with full address, legal form and name of the representative) which are included in the report

2. Information regarding the subsidy agreement

3. List of the specific procedures to be carried out

4. Specific optional procedures to be defined with the Entity

5. Template for factual observation report on the subsidised expenditures of a non-governmental development organisation (NGO) that is recognised by the Directorate-General Development Cooperation and Humanitarian Aid (DGD)

6. Legal references

**Appendix 1 List of the affiliated entity or entities of the Entity (with full address, legal form and name of the representative) which are included in the report**

**Appendix 2** **Information regarding the subsidy agreement**

**Appendix 3 List of the specific procedures to be carried out**

**General – terms and conditions of the Ministerial Order on the granting of the subsidy**

Prior to the mission, the following information should be obtained:

* + the Ministerial Order on the granting of the subsidy, including any entities affiliated with the Entity (civil society organisation or institutional entity) (Article 47, § 3 of the RD);
	+ the financial justification report and the programme budget implementation, for the Period and consolidated with the previous years for this programme;
	+ the internal procedures of the Entity (civil society organisations only) relating to covering costs with own contributions.

**Concerning the costs charged to the subsidy/programme (by specific objective/outcome) and the management costs included in the financial justification** (Article 47, § 1, 2° of the RD):

Informational factual reminders

The activities of the partners (partners abroad and collaborations) and their actual expenditures fall outside the scope of this report but have to be taken into account when verifying the annual accounts as part of the audit, given the financial responsibility of the Entity (civil society organisation or institutional entity). However, the partner organisation must justify the use of the funds allocated in accordance with the internal measures in force in the civil society organisation or institutional entity. In this context, as part of his auditing mission, the Statutory Auditor applies the ISA 600 standard (in particular paragraphs 40 and 41 of this standard).

The law stipulates that the management costs subsidy is limited to a maximum of 10% of the total direct costs. Overruns of the 10% threshold are charged to the own contribution. Management costs are not fixed amounts and have to be justified. When a programme is submitted by several applicants, this ceiling is increased by the programme coordination costs, for a percentage that does not exceed the result of the coordination cost rate formula (CCR) or 4.4%. CCR=3\*√NO-3. Where NO represents the number of accredited organisations that have submitted the programme application. An amount of at least 1% of the direct costs but not included in the normal management cost ceiling is devoted to the programme valuation and auditing costs.

The investments involved in the programme are charged entirely to the programme. The DGD has announced that capitalised investments charged to the programme must be booked in the year of expenditure and are consequently included in the costs charged to the programme. In this particular case, write-offs are expressly excluded from the costs charged to the programme.

However, this will not remove the obligation to abide by accounting law (obligation to depreciate investments); it is up to the Entity to determine its valuation accounting rules on the basis of accounting law and not on the basis of the rules on subsidies.

The usual accounting rules will be applied when booking depreciation in accordance with the Entity’s valuation rules. For investments of which the Entity remains the owner and which are charged to the DGD in full in the year of expenditure, it is proposed that the normal DGD subsidy should be booked in account 737 and the amount of the subsidy should then be adjusted by debiting a sub-account in the same 737 series and crediting an account 15. This adjusted amount would relate to investments that would be depreciated over several accounting years. This capital subsidy would then be booked in earnings according to the usual accounting rules. This method will make it possible to reconcile the requirements of accounting law and the rules on subsidies.

The valuation and audit costs are provided for in accordance with the provisions of the RD and charged to the programme.

The auditing costs relating to the annual accounts of the civil society organisation or institutional entity are considered to be part of the structural costs or administration costs of the Entity. The costs relating to this report and the audit costs relating to the external audits of partner organisations commissioned by the Entity are charged to the valuation and audit costs of the programme or, if applicable, to the administration costs.

**Agreed procedures**

As part of the mandatory agreed procedures:

* + the costs charged to the programme (per *outcome*) and the management costs, as included in the financial justification report obtained, should be compared with the accounting data of the Entity (civil society organisation or institutional entity) and a check should be made to see whether all significant aspects of these financial data correspond to one another (taking account of the threshold set in Point 3.2.3 of EUR XXX);
	+ a check should be performed to determine whether the accounting data submitted by the Entity (civil society organisation or institutional entity) correspond to the elements in the balance sheet of the general accounts as included in the annual accounts regarding which the auditor has expressed an opinion regarding the true and fair reflection;
	+ a check should be made, on the basis of samples[[1]](#footnote-1) (i.e. X% of the documents and/or X% of the amounts), to see whether the reported costs charged to the programme and the reported management costs, both the costs subsidised by the DGD (over the lifetime of the programme, maximum 80% of the direct costs for the civil society organisation or 100% for the institutional entity), and the own contribution (minimum 20% of the direct costs for the civil society organisation) are based on *verifiable supporting documents*, which should be understood to refer to the means of proof or the written papers/documents available at the time the audit is carried out, within the meaning of Article III.86, paragraph 1 of the Code of Economic Law.

However, the mission does not include the detailed assessment and examination of the relevance of the use of the subsidies, either as regards the eligibility criteria or other criteria of use;

* + as regards own contributions (for civil society organisations only: minimum 20% of the direct costs over the lifetime of the programme), a check should be made on the basis of samples taken[[2]](#footnote-2) to see whether the reported costs correspond to the verifiable supporting documents for the expenditures incurred, in accordance with the internal guidelines of the Entity;
	+ a check should be made to ensure that the management costs to be subsidised did not exceed 10% of direct costs (of which they are a part) (Article 28, § 4 of the RD). The aforementioned threshold of 10% is calculated over the programme period (5 years).

**Optional procedures**

1. Origin of own contribution (Article 30)

2. Amount and correct treatment of additional revenues (Articles 31, 41, 47, § 1, 4°)

3. The correct application of the choice of simplified costs for the justification of direct costs (Article 38 and Ministerial Order on simplified costs)

4. Checking that the costs charged to the subsidy do not include certain costs not eligible for subsidy (Appendix 4 of the RD, except for points 8° 9° and 10°); or

5. Other points to be agreed upon.]

**Concerning the administration costs [if applicable]** (Article 47, § 1, 2° of the RD):

**Agreed procedures**

As part of the mandatory agreed procedures:

* + the costs charged to the programme (per *outcome*) and the management costs, as included in the financial justification report obtained, should be compared with the accounting data of the Entity (civil society organisation or institutional entity) and checked to see whether all significant aspects of these financial data correspond to one another (taking account of the threshold set in Point xxx of EUR XXX);
	+ a check should be performed to determine whether the accounting data submitted by the Entity (civil society organisation or institutional entity) correspond to the elements in the balance sheet of the general accounts as included in the annual accounts regarding which the auditor has expressed an opinion regarding the true and fair reflection;
	+ a check should be made, on the basis of samples[[3]](#footnote-3) (i.e. X% of the documents and/or X% of the amounts), to see whether the reported costs charged to the programme and the reported management costs, both the costs subsidised by the DGD (over the lifetime of the programme, maximum 80% of the direct costs for the civil society organisation or 100% for the institutional entity), and the own contribution (minimum 20% of the direct costs for the civil society organisation) are based on *verifiable supporting documents*, which should be understood to refer to the means of proof or the written papers/documents available at the time the audit is carried out, within the meaning of Article III.86, paragraph 1 of the Code of Economic Law.

However, the mission did not include the comprehensive examination and relevance of the use of the subsidies, either as regards eligibility criteria or other criteria of use

* + as regards own contributions (for civil society organisations only: minimum 20% of the direct costs over the lifetime of the programme), a check should be made on the basis of samples taken[[4]](#footnote-4) to see whether the reported costs correspond to the verifiable supporting documents for the expenditures incurred, in accordance with the internal guidelines of the Entity;
	+ a check should be made to ensure that the management costs to be subsidised did not exceed 10% of direct costs (of which they are a part) (Article 28, § 4 of the RD). The aforementioned threshold of 10% is calculated over the programme period (5 years).

**Concerning the structural costs** (Article 47, § 1, 3° of the RD):

**Informational factual reminders**

The structural costs subsidy is set at a flat rate of 7% of the direct costs budget during the lifetime of the programme. The structural costs subsidy is not adapted to the direct costs incurred, provided that the budget is devoted to at least 75% of the programme. Otherwise, the structural costs are adapted pro rata the actual expenses of the programme budget.

The details of the structural cost calculation drawn up by the Entity are as follows:

<Include the detailed structural costs drawn up by the Entity.>

**Agreed procedures**

Check that the amounts for structural costs reported by the Entity correspond at least to the real and global structural costs (as included in the Entity’s accounts) borne by the Entity during the programme period, and that these amounts remain within the budget drawn up on a flat-rate basis for the entire programme.

**Concerning optional procedures agreed upon** [(list, provided **by way of example** only, of **non-obligatory** procedures)

1. Origin of own contribution (Article 30)

2. Amount and correct treatment of additional revenues (Articles 31, 41, 47, § 1, 4°)

3. The correct application of the choice of simplified costs for the justification of direct costs (Article 38 and Ministerial Order on simplified costs)

4. Checking that the costs charged to the subsidy do not include certain costs not eligible for subsidy (Appendix 4 of the RD, except for points 8° 9° and 10°)

5. Other points to be agreed upon.]

For each of the optional procedures included, the report contains the following points:

**Informational factual reminders**

xxx

Appendix 4. Specific optional procedures to be defined with the Entity.

**Appendix 5. Template for factual observation report on the subsidised expenditures of a non-governmental development organisation (NGO) that is recognised by the Directorate-General Development Cooperation and Humanitarian Aid (DGD)**

**Report on actual findings concerning the financial justification report of <Name of the Entity> (civil society organisation or institutional entity), which is approved by the Directorate-General Development Cooperation and Humanitarian Aid (DGD)**

Reference number “<Ministerial Order on the granting of the subsidy>”

<Name of contact persons>, <position>

<Name of Entity>

<Address>

<dd month yyyy>

Dear <name of contact persons>,

In accordance with our mission letter[[5]](#footnote-5) dated .... <date of mission letter drawn up in accordance with the ISRS 4400 standard>, we are sending you our factual observation report ('**the report**') on the financial justification report drawn up by <name of Entity> in application of Articles 37 and 47 of the Royal Decree of 11 September 2016 concerning non-governmental cooperation ('the **RD**') as well as the technical memoranda of the Consultative Committee on Non-Governmental Cooperation as approved on 12/07/2017 by the Minister responsible for Development Cooperation, including that notified on 12/07/2017. The financial justification report covers the **period from <XXX> to XXX** (the ‘Period’) of the programme running from XXXX to <XXXX> and is included in Appendix 1 of this report. You asked for certain procedures to be carried out in relation to your financial justification and the granting of a subsidy funded by the DGD, reference number <reference number of the subsidy contract> (Ministerial Order on the granting of the **subsidy**').

The total amount of the costs (operating costs, management costs and structural costs or administration costs), included in the financial justification report covering the Period and included here for the purpose of identification in **Appendix 1** of this report, comes to EUR <XXXXX>.

**Chapter 1 – Introduction: description of the mission**

* 1. **Objective**

We/I, <name of Statutory Auditor>, have/has carried out the agreed procedures regarding the financial justification report drawn up by and under the responsibility of <name of Entity> in application of Article 47 of the RD on costs charged to the programme, management costs and, if applicable, <administration costs> / <structural costs> for the period from <**XXXXX>** to <**XXXXX>**.

Our mission involved carrying out certain specific agreed procedures, as agreed with <name of Entity>, described later on in this report, the observations of which should enable the DGD to draw conclusions concerning the financial data included in the financial justification report. Our objective in the context of this financial justification report was to implement certain procedures that we agreed on and to submit a factual observation report to you relating to the procedures carried out.

The procedures agreed upon are required, pursuant to Article 47 of the RD of 11/09/2016, to apply to:

1° the determination by the statutory auditor that the total amounts charged to the subsidy of operating costs, classified by outcome*[[6]](#footnote-6)*, the management costs and where applicable the administration costs match the verifiable supporting documents for the programme (Article 47, § 1, 2°;

2° where applicable, the confirmation from the Statutory Auditor that the structural costs contained in the annual accounts of the organisation are at least 7% of the direct costs of the programme (Article 47, § 1, 3°);

3° where applicable, the confirmation from the Statutory Auditor that these expenses and revenues for its own contribution match the verifiable supporting documents for the programme (Article 47, § 1, 5°).

[Where applicable, the procedures agreed upon may apply to other matters which should be considered points for attention. This concerns, for example:

1. Origin of own contribution (Article 30)
2. Amount and correct treatment of the choice of simplified costs for the justification of direct costs (Articles 31, 41, 47 § 1, 4°)
3. The correct application of the choice of simplified costs for the justification of direct costs (Article 38 and Ministerial Order on simplified costs)
4. Checking that the costs charged to the subsidy do not include costs not eligible for subsidy (Appendix 4 of the RD, except for points 8° 9° and 10°)
5. Other points to be agreed upon.]
	1. **Standards and ethics**

We carried out our mission:

* in line with the *International Standard on Related Services* ('ISRS') 4400 ‘*Engagements to perform Agreed-upon Procedures regarding Financial Information’* published by the International Federation of Accountants ('IFAC');
* in compliance with the provisions on ethics laid down in the Act of 7 December 2016[[7]](#footnote-7) applicable in Belgium. These provisions set out the basic ethical principles for statutory auditors concerning integrity, objectivity, independence, professional competence, the obligation of caution and diligence, confidentiality, professional behaviour and technical standards, among other matters. Although ISRS 4400 does not stipulate independence as a criterion for the agreed missions, the legislation requires that the Statutory Auditor is independent of the Entity and complies with the independence requirements as stipulated by the provisions on ethics laid down in the Act of 7 December 2016[[8]](#footnote-8) applicable in Belgium to statutory auditors;
* in accordance with the mission letter dated <XXXX>.
	1. **Procedures carried out**

As requested, we only carried out the procedures listed in Chapter 3.

These were carried out with a view to informing the DGD with a view to helping the latter assess whether the amounts indicated in the attached financial justification report:

1. as regards the **costs charged to the programme**, **management costs and administration costs** – *verifiable supporting documents* – in all significant aspects, bearing in mind the threshold set in Point 3.2.3. of EUR XXX, as indicated in each section of Chapter 3 below, they correspond to the accounts and inventories as regards the existence (that is, that they correspond to the relevant accounting entry and the supporting document) and compliance (that is, they provide a presentation in line with the accounting data and inventories on the basis of which the annual accounts were drawn up) with the provisions of Article 47, § 1, 2° of the RD. The term 'supporting documents' should be understood to refer to the means of proof or the written papers/documents within the meaning of Article III.86, paragraph 1 of the Code of Economic Law;
2. as regards the **structural costs** (Article 29 § 2 of the RD), they correspond to the provisions of Article 47 § 1, 3° of the RD;
3. as regards **own contributions,** they correspond to the verifiable supporting documents as described above under point (i) and to the provisions of Article 47, § 1, 5° of the RD.

<Name of Entity> has requested that the following optional procedures be carried out:

<procedures to be listed and detailed>

Given that the procedures that we carried out did not constitute an audit or an examination conducted in accordance with international auditing standards or standards applicable to limited examination missions relating to expenses and the justification of subsidies received by the Entity, we do not provide any form of assurance concerning the financial justification report, either as regards the rules on subsidisation or as regards other justification criteria. With respect to the certification by the auditor of the true and fair reflection of the Entity’s annual accounts, we refer to the Statutory Auditor’s report (as provided for in Article 17, § 7 of the Act of 27 June 1921 as regards Entities whose legal form is that of a non-profit association (ASBL/VZW)).

This report concerns the conformity of verified expenditures (their reality, taking into account the threshold of EUR XXX set in Point 3.2.3.) and does not in any way entail a judgement as to the appropriateness of the expenditures.

If we had carried out other procedures, checked expenditures or examined the expenditures of the Entity in application of international auditing standards, it is possible that other points might have attracted our attention and been pointed out to you.

* 1. **Sources of information**

The report is based on the information that you provided us with in response to specific questions or that we have obtained and comes from your books and your annual accounts.

* 1. **Factual observations**

In Chapter 3 of this report, we set out in detail the factual observations that result from the procedures that we carried out.

* 1. **Use of this report**

The aim of this report is solely that set out in the paragraph entitled 'Objective' above.

It is confidential and reserved for your personal use. Its sole purpose is for you to submit it to the **DGD** in response to the requirements set out in the Ministerial Order on the granting of the subsidy. This report may not be used for purposes other than those intended. The **DGD** may only forward this report to parties duly authorised to consult it, in particular the Court of Audit.

The **DGD** is not party to the mission letter concluded between you and us, and consequently we do not have a duty of diligence towards the **DGD,** which can make use of this factual observation report at its own risk and discretion.

This report concerns solely the financial justification report to the DGD referred to above and does not extend to any of the Entity’s financial statements.

**Chapter 2: Brief description (limited to the general framework) of the Ministerial Order on the granting of the subsidy, the activity, the structure set up by the beneficiary and the main financial and budgetary information**

<Include here a brief description of the Ministerial Order on the granting of the subsidy, the action, the structure set up by the Entity and the main financial and budgetary information>

[This should also include a description:

- of the expense control mechanisms of the partner(s) which were implemented by the Entity (civil society organisation or institutional entity) in order to justify the funds allocated to the latter by the DGD;

- of any additional revenue generated within the programme as well as its treatment (reference: Articles 31 and 41 of the RD of 11 September 2016);

- of the treatment of exchange rates demonstrating that the internal provisions of the Entity were applied consistently and/or in accordance with the agreement with the various partners.]

[These various descriptions will be provided by the Entity]

**Chapter 3: Overview of agreed procedures and factual observations**

* 1. **General – terms and conditions of the Ministerial Order on the granting of the subsidy**

Prior to the mission, we obtained:

* + the Ministerial Order on the granting of the subsidy, including any entities affiliated with the Entity (civil society organisation or institutional entity) (Article 47, § 3 of the RD);
	+ the financial justification report and the programme budget implementation, for the Period and consolidated with the previous years for this programme;
	+ the internal procedures of the Entity (civil society organisations only) relating to covering costs with own contributions.
	1. **Concerning the costs charged to the subsidy/programme (by specific objective/outcome) and the management costs included in the financial justification** (Article 47, § 1, 2° of the RD):

3.2.1. Informational factual reminders

The activities of the partners (partners abroad and collaborations) and their actual expenditures fall outside the scope of this report but have to be taken into account when verifying the annual accounts as part of the audit, given the financial responsibility of the Entity (civil society organisation or institutional entity). However, the partner organisation must justify the use of the funds allocated in accordance with the internal measures in force in the civil society organisation or institutional entity. In this context, as part of his auditing mission, the Statutory Auditor applies the ISA 600 standard (in particular paragraphs 40 and 41 of this standard).

The law stipulates that the management costs subsidy is limited to a maximum of 10% of the total direct costs. Overruns of the 10% threshold are charged to the own contribution. Management costs are not fixed amounts and have to be justified. When a programme is submitted by several applicants, this ceiling is increased by the programme coordination costs, for a percentage that does not exceed the result of the coordination cost rate formula (CCR) or 4.4%. CCR=3\*√NO-3. Where NO represents the number of accredited organisations that have submitted the programme application. An amount of at least 1% of the direct costs but not included in the normal management cost ceiling is devoted to the programme valuation and auditing costs.

The investments involved in the programme are charged entirely to the programme. The DGD has announced that capitalised investments charged to the programme must be booked in the year of expenditure and are consequently included in the costs charged to the programme. In this particular case, write-offs are expressly excluded from the costs charged to the programme.

However, this will not remove the obligation to abide by accounting law (obligation to depreciate investments); it is up to the Entity to determine its valuation accounting rules on the basis of accounting law and not on the basis of the rules on subsidies.

The usual accounting rules will be applied when booking depreciation in accordance with the Entity’s valuation rules. For investments of which the Entity remains the owner and which are charged to the DGD in full in the year of expenditure, it is proposed that the normal DGD subsidy should be booked in account 737 and the amount of the subsidy should then be adjusted by debiting a sub-account in the same 737 series and crediting an account 15. This adjusted amount would relate to investments that would be depreciated over several accounting years. This capital subsidy would then be booked in earnings according to the usual accounting rules. This method will make it possible to reconcile the requirements of accounting law and the rules on subsidies.

The valuation and audit costs are provided for in accordance with the provisions of the RD and charged to the programme.

The auditing costs relating to the annual accounts of the civil society organisation or institutional entity are considered to be part of the structural costs or administration costs of the Entity. The costs relating to this report and the audit costs relating to the external audits of partner organisations commissioned by the Entity are charged to the valuation and audit costs of the programme or, if applicable, to the administration costs.

3.2.2. Agreed procedures

As part of the agreed procedures, we have:

* + compared the costs charged to the programme (per *outcome*) and the management costs, as included in the financial justification report obtained, with the accounting data of the Entity (civil society organisation or institutional entity) and checked to see whether all significant aspects of these financial data correspond to one another (taking account of the threshold set in Point 3.2.3 of EUR XXX);
	+ a check should be performed to determine whether the accounting data submitted by the Entity (civil society organisation or institutional entity) correspond to the elements in the balance sheet of the general accounts as included in the annual accounts regarding which the auditor has expressed an opinion regarding the true and fair reflection;
	+ a check should be made, on the basis of samples[[9]](#footnote-9) (i.e. X% of the documents and/or X% of the amounts), to see whether the reported costs charged to the programme and the reported management costs, both the costs subsidised by the DGD (over the lifetime of the programme, maximum 80% of the direct costs for the civil society organisation or 100% for the institutional entity), and the own contribution (minimum 20% of the direct costs for the civil society organisation) are based on *verifiable supporting documents*, which should be understood to refer to the means of proof or the written papers/documents available at the time the audit is carried out, within the meaning of Article III.86, paragraph 1 of the Code of Economic Law.

However, the mission did not include the comprehensive examination and relevance of the use of the subsidies, either as regards eligibility criteria or other criteria of use.

* + as regards own contributions (for civil society organisations only: minimum 20% of the direct costs over the lifetime of the programme), a check should be made on the basis of samples taken[[10]](#footnote-10) to see whether the reported costs correspond to the verifiable supporting documents for the expenditures incurred, in accordance with the internal guidelines of the Entity;
	+ a check should be made to ensure that the management costs to be subsidised did not exceed 10% of direct costs (of which they are a part) (Article 28, § 4 of the RD). The aforementioned threshold of 10% is calculated over the programme period (5 years).

Within the framework of the optional procedure agreed upon, we have:

3.2.3. Factual observations

As indicated in the mission letter, exceptions lower than EUR xxx[[11]](#footnote-11) are not included below.

<Include the overview of factual observations relating to the aforementioned agreed procedures.>

* 1. **Concerning the administration costs [if applicable]** (Article 47, § 1, 2° of the RD):

3.3.1. Informational factual reminders

<No particular points to note>

3.3.2. Agreed procedures

<Idem 3.2.2.>

3.3.3. Factual observations

<Include the overview of factual observations relating to the aforementioned agreed procedures.>

* 1. **Concerning the structural costs** (Article 47, § 1, 3° of the RD):

3.4.1. Informational factual reminders

The structural costs subsidy is set at a flat rate of 7% of the direct costs budget during the lifetime of the programme. The structural costs subsidy is not adapted to the direct costs incurred, provided that the budget is devoted to at least 75% of the programme. Otherwise, the structural costs are adapted pro rata the actual expenses of the programme budget.

The details of the structural cost calculation drawn up by the Entity and submitted to us are as follows:

<Include the detailed structural costs drawn up by the Entity.>

3.4.2. Agreed procedures

We have checked that the amounts for structural costs reported by the Entity correspond at least to the real and global structural costs (as included in the Entity’s accounts) borne by the Entity during the programme period, and that these amounts remain in the budget drawn up on a flat-rate basis for the entire programme.

3.4.3. Factual observations

<Include the overview of factual observations relating to the aforementioned agreed procedures>.

* 1. **Concerning optional procedures agreed upon** (see point 1.3 above) [(list, provided **by way of example** only, of **non-obligatory** procedures)

1. Origin of own contribution (Article 30)

2. Amount and correct treatment of additional revenues (Articles 31, 41, 47, § 1, 4°)

3. The correct application of the choice of simplified costs for the justification of direct costs (Article 38 and Ministerial Order on simplified costs)

4. Checking that the costs charged to the subsidy do not include certain costs not eligible for subsidy (Appendix 4 of the RD, except for points 8° 9° and 10°)

5. Other points to be agreed upon.]

For each of the optional procedures included, the report contains the following points:

3.5.1. Informational factual reminders

3.5.2. Agreed procedures

<Specific optional procedures to be defined with the Entity.>

3.5.3. Factual observations

<Include the overview of factual observations relating to the aforementioned agreed procedures.>

We are at your disposal to provide any additional information you may wish to obtain.

Yours sincerely,

< Name of the signatory Statutory Auditor>

On behalf of the statutory audit firm [in compliance with the statutory procedures of the firm]

<Address of the statutory audit firm>

[Date of signature] <dd month yyyy> [date of signature of final report]

**Appendix 1. Financial justification report of the Entity**

**Appendix 2. Mission letter**

**Appendix 6 Legal references**

RD 11/9/2016 to be included

1. The examination by the auditor is not a comprehensive examination of all reported expenditures. The size of the sample of the number of documents or the value of the amounts must be a **percentage to be agreed between the parties on the initiative of the Statutory Auditor, with a minimum of 20%**. [↑](#footnote-ref-1)
2. [↑](#footnote-ref-2)
3. [↑](#footnote-ref-3)
4. [↑](#footnote-ref-4)
5. Depending on the circumstances, the mission letter is sometimes called 'Terms of Reference' following practices in the field of subsidies. [↑](#footnote-ref-5)
6. “Outcome”: term defined in Article 1, paragraph 1, 7° of the Royal Decree: “7° “outcome”: the direct effect that the action seeks to accomplish over the short or medium term, in respect of the direct, intermediary or ultimate beneficiaries (specific objective). [↑](#footnote-ref-6)
7. Act of 7 December 2016 on the organisation of the profession and public supervision of statutory auditors. [↑](#footnote-ref-7)
8. Idem. [↑](#footnote-ref-8)
9. The examination by the auditor is not a comprehensive examination of all reported expenditures. The size of the sample of the number of documents or the value of the amounts must be a **percentage to be agreed between the parties on the initiative of the Statutory Auditor, with a minimum of 20%**. [↑](#footnote-ref-9)
10. [↑](#footnote-ref-10)
11. The exception threshold to be declared is that set in the mission letter. [↑](#footnote-ref-11)