

# The Concept of Generally Accepted Government Auditing Standards (GOR) – Guidelines

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# Concept of GOR

## I. Introduction

1. The purpose of these guidelines is to specify the assumptions and substance of the concept of generally accepted government auditing standards” [“God offentlig revisionssskik (GOR) – en vejledning”].

The guidelines are intended to lay down a norm for the professional service to be rendered by auditors when they audit areas encompassed by this concept. At the same time it is expedient that clarity exists for all parties involved – ministries, institutions, citizens and auditors – with respect to what the concept covers. It obvious that the performance of generally accepted government auditing assumes professionalism but it has not been found expedient to make more precise requirements to the training of auditors, etc.

First, the guidelines lay down the framework of the concept of GOR, the area of application and the target group of the guidelines. Furthermore, the factors that are decisive for the substance of the concept of GOR are referred to (part II).

Second, the concept of GOR assumes distribution of tasks and responsibility in order to delimit the auditor’s responsibility in relation to the responsibility of the management.

In compliance with section 3 of the Auditor General’s Act, the audit task according to GOR is defined both as a financial audit and performance audit. The guidelines describe the objective, planning and implementation of both types of audit encompassed by the concept of GOR (part IV).

Finally, the guidelines describe how and in which way the auditor reports on the audit performed and its results (part V).

The concept takes its point of departure in the provisions of the Auditor General’s Act. Furthermore, the guidelines are based on the auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) and the “European implementing guidelines for the INTOSAI auditing standards” prepared in cooperation between the national supreme audit institutions in the EU and the European Court of Auditors. The guidelines are also a continuation of the principles of the publication “Guideline instructions for the audit of government subsidised institutions, etc. (section 4 of the Auditor General’s Act)” of 1993.

The guidelines have been discussed with the NAOD's professional cooperation partners: The Institute of State Authorised Public Accountants in Denmark, the Danish Association of Registered Accountants, the Local Government Auditing Department, the Audit Directorate of the City of Copenhagen and Revisionsaktieselskabet af 1/12 1962.

## **II. Concept of GOR**

2. GOR is a concept that expresses the assumptions and conditions for the performance and substance of the audit of the government accounts, the accounts of public institutions, etc. or the accounts of institutions and enterprises, to which the government made grants or provided guarantees, etc.

### **A. Framework of GOR**

3. According to section 3 of the Auditor General's Act, the audit verifies whether the accounts are correct and whether the transactions encompassed by the financial reporting comply with the appropriations granted, acts, other regulations, agreements concluded and usual practice (financial audit). Furthermore, it is assessed whether due financial regard has been paid in the management of the funds and operation of the enterprises covered by the accounts (performance audit).

Section 3 of the Auditor General's Act concerns accounts encompassed by section 2 of the Auditor General's Act, which covers the government accounts and, in part, the accounts of institutions, whose expenses, etc., are covered by government grants or contributions, fees or other income according to the law, etc.

4. Institutions, enterprises, local authorities, etc., comprised by sections 4 and 5 of the Auditor General's Act are subject to audit by private or local authority auditors. In terms of important grant areas, the audit of this area is conducted on the basis of audit instructions (executive orders) issued by the ministry providing the grant after consultation with the NAOD, the auditors' organisations and local authority auditors, among others.

The NAOD may directly or through the relevant minister call in accounts for review. Pursuant to section 6 of the Auditor General's Act, it must be checked in particular that the accounts are subject to adequate auditing, that the terms of the grants, etc. have been fulfilled, that the funds have been applied in compliance with given provisions and that, generally, due financial regard has been paid.

5. The Auditor General's Act provides an overall framework for the substance of GOR. The more detailed substance of the audit has developed from the practice developed by the NAOD and through its cooperation with ministries on the drafting of audit instructions and in the cooperation with the auditors auditing public accounts.

### **B. Area of application and target group of guidelines**

#### **Area of application of the concept of GOR**

6. The concept applies to the following areas:

- financial reporting areas comprised by section 2(1) of the Auditor General's Act,

- financial reporting areas comprised by sections 4 and 5 of the Auditor General's Act and
- other areas where the concept may apply.

The concept applies subject to the limits and deviations that follow from the special nature of the area concerned and specifically stipulated provisions.

### Target group of guidelines

7. The target group of the guidelines is public and private auditors carrying out audits within areas encompassed by this concept. Moreover, the guidelines aim at informing ministries, including for the purpose of issue of audit instructions for auditors auditing government funds, for example, government subsidies, about the requirements to audits conducted according to the concept of GOR.

### C. Factors decisive for the substance of the concept of GOR

8. The most important factor for determining the substance of the concept of generally accepted government auditing standards is section 3 of the Auditor General's Act.

The nature of the legal status, tasks, organisation, etc., of the audited units is also a factor which has significance for the way in which the standards must be applied in practice.

According to the standards, the auditor must check that the accounts are free of material misstatement.

A special element of the standards is the importance attached to observance and compliance with the legislation and the requirement for due financial regard to be paid in the administration.

Moreover, the context in which the auditor is expected to report and the issues reported on are decisive for the concept of GOR.

## III. Basic assumptions

9. The concept of GOR assumes delimitation of the responsibility between management and auditor. Basically, management is responsible for the administration and financial reporting, etc. It is the auditor's responsibility to assess how the institution management handled the task.

10. Management's responsibility and tasks are laid down in legislation, by-laws, etc. and usually have the following content:

It is management's responsibility to ensure that objectives, strategies and action plans for the enterprise exist and that follow-up on the performance is made, including responsibility for the presentation of accounts for the application of funds.

The institution management is under an obligation to ensure that due financial regard is paid in the administration.

It is management's responsibility to build up appropriate administrative systems and appropriate internal control to ensure good financial control and compliance with legislation and other rules, among others.

Management identifies and sets appropriate and adequate performance objectives for all essential activities of the organisation which form part of the organisation's overall objectives.

Management plans the enterprise's registration systems, internal control systems and the financial reporting procedures with a view to providing a reliable basis for preparation of accounts.

Control includes performance control, activity control, capacity control and financial control.

Management monitors the achievement of control objectives on an ongoing basis and if necessary, takes any measures necessary to secure the operation and activities of the organisation.

This implies planning an administration which encompasses the necessary financial control and accounting systems, including internal controls, to enable presentation of correct accounts (reliable) which substantiate that the funds have been applied as assumed and that the intended results have been achieved within the framework set up.

Management should make an annual evaluation of the financial control.

Furthermore, it is management's responsibility to report in the form of correct (reliable) accounts, statements, reports, etc.

Finally, management should adhere to the principles of good public management, including openness, responsibility and integrity.

11. The auditor is responsible for planning and performing the audit, including reviewing and assessing whether management fulfilled its obligation to ensure that due financial regard has been paid.

The auditor lays down the planning and performance of the audit in relation to the specific audit task in compliance with these guidelines.

Finally, the auditor must report on the audit performed and its results, see paragraph 38.

#### **IV. Audit task**

12. According to section 3 of the Auditor General's Act, an audit according to GOR includes financial audit and performance audit.

These types of audit have common features, but also differences.

According to the INTOSAI auditing standards, a performance audit as opposed to a financial audit is broader and more open for evaluation and interpretation. Its coverage is

more selective and it can be performed over a number of years. Accordingly, performance audit reports are varied and have more discussion, reasons and arguments.

## **A. Financial audit**

### **a. Definition**

13. In a financial audit, the auditor checks whether the accounts are correct, meaning free of material misstatement, and whether the transactions comprised by the presentation of accounts comply with the appropriations granted (appropriation control), acts and other regulations, agreements concluded and usual practice (regularity audit).

### **b. Objective**

14. The objective of the financial audit is to provide reasonable assurance of the quality of the accounts of the individual enterprise and internal control relative to the above-mentioned requirements. Once this assurance has been achieved, the audit work can be considered completed. A special feature of GOR is the scope of the regularity audit as a result of the special appropriation rules and the extensive statutory regulation of public sector activities.

### **c. Audit planning**

15. The auditor must plan the audit in such a way as to ensure that a high-quality audit is performed in an economical, efficient and effective way and at the right time. This is done on the basis of information about the audited institution.

The choice of audit strategy is based on the auditor's assessment of the risk of material misstatement in the accounts, among others.

The audit planning determines the scope, objectives and expected results of the audit. In addition, the planning must ensure appropriate resource allocation and form the basis of supervision and control of the audit effort.

The planning takes its point of departure in materiality and risk. Accordingly, it is general practice that not all matters are examined each year. If the auditor has previously established that the internal control of a system worked satisfactorily and if the auditor has satisfied himself that the system has not changed materially compared to previous years, the auditor need not test the system every year. However, all material systems and internal controls should be reviewed and re-tested within a limited term of years.

### **d. Audit evidence**

16. Sufficient audit evidence must be provided to support the auditor's assessments and conclusion as regards the organisation, programme, activity or function comprised by the audit. Audit evidence is sufficient if it is valid and relevant.

Valid audit evidence means information which qualitatively is sufficient and appropriate with a view to obtaining the audit results. The reliability of the information depends on its nature and the sources and methods applied to provide it.

The auditor should make sure that the most reliable sources are used.

Relevant audit evidence means information which is material in relation to the audit objectives set. This also implies that there should be a reasonable relationship between the relevance of the evidence and the resources to be applied to provide it.

#### e. Evaluation of internal control

17. The auditor must review and evaluate whether the planning of the internal control is expedient and secure.

In connection with GOR, systems auditing is primarily used as the overall audit principle in combination, on a large or small scale, with substantive auditing.

If the audit shows that there is a likelihood of material misstatement in the accounts, the substantive audit may be extended and/or redefined to form the basis of reasonable assurance that confirms or invalidates the presumption that arose.

#### f. Materiality and risk

18. In a financial audit, the overall principle for prioritising audit tasks and audit areas is materiality and risk criteria.

Generally, issues or information can be considered material if knowledge about the issues or the information has significance for the reader's decision-making. Materiality may be the amount involved, the nature of the issue or information or the context it forms part of.

The auditor must obtain reasonable assurance that the administration and accounts are free of material misstatement. The opposite of assurance is the uncertainty connected with the audit. This means the uncertainty of the auditor arriving at the wrong conclusions about the accounts with the consequence that an unqualified audit opinion is attached to the accounts although the accounts are not free of material misstatement.

#### g. Documentation

19. The auditor must document its audit evidence in an appropriate manner in working papers which include information on the basis of the planning and scope of the work performed and the audit results.

#### h. Quality control of the audit

20. Certainty of the quality of the audit must be provided. First, it is necessary to adopt policies and procedures aimed at securing acceptable quality standards for the audit tasks. It is therefore essential that plans for the audit work are drawn up and that the staff possesses the necessary audit qualifications for the task

Second, the auditor must ensure that the audit work is subject to quality control to establish whether the policies and procedures laid down have been complied with and have had the desired effect.

### **B. Performance audit**

#### a. Definition

21. In a performance audit, it is assessed whether due financial regard has been paid in the administration of the funds and operation of the enterprises encompassed by the accounts.

#### b. Objective

22. The overall purpose of the performance audit is

- to assess whether due financial regard has been paid in the administration,
- to assess the validity and reliability of efficiency and effectiveness indicators which form part of the enterprise's reporting,
- to assess whether the enterprise to a sufficient extent seeks to identify areas in which there is a basis for improving the administration in order to recover an economy, efficiency or effectiveness potential or otherwise highlight such potential, and
- to assess whether good public financial control, see paragraph 31, has been observed and call the audited units' attention to this practice.

Performance audits are implemented as a methodological examination of an area or organisation from one or more points of view aimed at assessing whether due financial regard has been paid.

#### c. Object

23. The object of performance audit examinations may be one or several of the following:

- The management of the institution, meaning all kinds of decisions, acts and rules with a view to control and financial reporting of the use of staff, material and financial resources.
- A policy area, meaning endeavours to achieve set objectives using a certain amount of resources within a certain time frame.
- Organisation, meaning systems and control mechanisms to secure achievement of objectives and results orientation.

24. A performance audit assesses whether the institution displayed the requisite financial rationality and responsibility in its transactions for the enterprise or parts of the enterprise. Such an assessment will include a detailed examination of the institution's objectives, plans and strategies and the effectiveness in performing its tasks.

25. A performance audit may examine:

- Whether – and to which extent – the institution actually paid due financial regard in its transactions, for example, examination of whether transactions were implemented economically and examination of the institution's efficiency and effectiveness.
- Whether the institution's systems ensure that due financial regard is paid in the administration. The examination emphasises whether the institution has established

an appropriate control system which contributes to application of available resources in a way that provides the best possible achievement of objectives. This type of performance audit will often be in the nature of an examination of the financial control (management and control), see paragraph 31.

#### d. Aspects

26. For practical-systematic reasons, the critical financial issues that a performance audit may cover have been divided into three aspects:

- Economy aspect: Have benefits and services been acquired in a financially expedient way having regard to price, quality, quantity, etc.
- Efficiency aspect: Is there an optimum relationship between the resources applied and output.
- Effectiveness aspect: To which extent were the objectives achieved – was the impact generated – which were intended by the financial resource application concerned.

The delimitation between the three aspects is not strict, but elements of all three aspects will normally form part of a major examination. The main emphasis will often be on one aspect.

27. However, the performance audit has a wider perspective than what is naturally inherent in the above-mentioned three aspects.

A performance audit also includes financial control examinations, that is, audit of the control systems which management has established to ensure that due financial regard is paid by the organisation, among others.

#### Economy

28. An audit from the point of view of the economy aspect can be performed either by directly assessing individual transactions or indirectly by assessing the way in which the administration of resources has been planned and by assessing other issues.

#### Efficiency

29. Efficiency concerns the relationship between resource application and output. Assessing efficiency requires a basis for comparison in the form of a time series analysis or a comparison of the efficiency of the production of similar services, either within or outside the institution.

The efficiency analysis requires determination of the resources applied and precise determination of the products.

Public production often comprises various service and control activities and rarely physical units, which may readily be counted. In addition, it rarely suffices to measure the total output of a public institution. The efficiency analysis needs to be split up into several subactivities and it may be necessary to assign priority to different types of activities in order to be able to make the analysis.

Finally, it may be necessary to make allowance for the fact that production and cost registration is separated into different periods of time and that resources may be applied for the production of different products with the consequence that distribution must be made.

## Effectiveness

30. The effectiveness concept means the degree of achievement of objectives and, given the resources applied, is a measure of the institution's ability to obtain a result that achieves the set objectives.

In assessing the degree of achievement of objectives, the results achieved are compared with the results determined in advance or expected results.

Effectiveness is measured as the relationship between resources and the results of the activities performed by an institution to achieve the objective. Effectiveness is composed of the institution's ability to produce goods and services through the resources consumed – efficiency – and the disposition of the produced goods and services to provide the results or the impact that achieve the objective. However, practical performance audit examinations often measure effectiveness as the relationship between impact and resource consumption.

A special problem in relation to effectiveness audits is the examination of non-intended impact, whether such impact is within or beyond the objective, and that the impact may be the result of other factors.

## Financial control (management and control)

31. Another method of assessing whether the institution paid due financial regard is to examine the enterprise's financial control where emphasis is placed on examining the institution's ability and means to utilise available resources to obtain good achievement of objectives.

An audit of an institution's financial control assesses whether the institution has established information systems which ensure that resources are applied and activities planned so that the organisation's objective is achieved. This assumes that the institution evaluates on an ongoing basis whether there is financial correlation between resource application, output and achievement of objectives.

When assessing the effectiveness of the financial control, the auditor may look at the following aspects: setting of objectives, planning, including organisation, budgeting, implementation of operational and managerial control on an ongoing basis (registration), presentation of accounts, follow-up, reporting and evaluation.

A strategy and action plan should be available for the application of staff, financial and physical resources and for implementation of the enterprise's activities and the expected results.

32. The following should be available: Relevant, reliable and up-to-date financial data and information about resources applied, activities implemented and results achieved to be compared with plans as part of the follow-up on results.

An assessment of the organisational aspects of the financial control will examine whether structures, procedures and working methods have been established which may support rational and expedient planning, control, adjustment, registration and accounting.

Planning, resource application and/or activity implementation should be adjusted in good time on the basis of rational arguments, if disagreements are established between the results achieved and planned.

Finally, periodic evaluations of the planning, control, registration, accounting and organisation of the financial control should be implemented.

#### e. Implementation

33. In prioritising the performance audit, emphasis must be placed on the expected result of the examination. This is decided by whether the audit reveals material financial and fundamental conditions and contributes to promoting efficient financial management in the audited unit.

The prioritisation of the scope and depth of the performance audit builds on the auditor's professional discretion.

34. The performance audit can be performed as an integral part of and concurrently with the financial audit of the accounts for the year.

Performance audits may include analyses of expense and income items, calculation of financial ratios, examinations of unusual tendencies in the development, analyses of budget deviations, the realism of budget assumptions, etc.

#### Major examinations

35. The NAOD carries out major examinations within its field. Outside this field, the implementation of major examinations requires that the auditor has concluded an agreement for implementation of such a major examination. Major examinations thoroughly examine and analyse an audit area without this taking place in correlation with or as part of the audit of the annual accounts.

Major examinations typically relate to one or more of the aspects of economy, efficiency, effectiveness and financial control.

As opposed to the ongoing audit, the auditor's work in connection with a major examination may include calculations and analyses of the institution's measurements regarding activities, economy, efficiency and effectiveness and analyses and qualitative assessments of the auditee's financial control system as a whole. Reporting on the examination will usually be in the nature of an actual audit report, containing a presentation of the purpose, organisation and methodology of the examination and financially qualitative evaluations of the issues examined.

#### Performance audit methodology

36. As a main rule, implementation of performance audits – notably major examinations – requires a preliminary examination before the audit plan is laid down. The preliminary

examination includes analysis of financial, legal, institutional and managerial issues and correlations.

Preliminary examinations identify problems and the precise purpose of the examination.

Preliminary examinations also include information on necessary data material, the method of processing data material and assessment criteria.

The choice of methodology of the performance audit aims at creating documentation for the conclusions of the auditor's examination of the audit object on the basis of the aspect chosen.

A performance audit according to GOR assumes that methods and theories are applied which are generally accepted within the area concerned.

The reporting on the performance audit performed and its results should give a clear account of methodological assumptions.

The evaluation basis varies according to the audited unit, the objectives and legislation of the area and the specific criteria which the auditor finds are material in connection with performing the audit.

In the choice of assessment basis, the auditor must make sure that the criteria are relevant, reasonable and obtainable.

The evaluation basis must be stated clearly and unambiguously and where possible, be based on legislation or other authoritative statements and generally accepted standards for the area concerned.

## **V. Reporting**

37. After an audit, the auditor must draw up a written report. The report must be in the form of an opinion, a report or long-form audit report depending on the legal basis of the audit.

The report must give a clear account of the results of the audit.

The reporting must be objective and constructive in its form.

Especially in relation to performance audits, the reporting should contain information on purpose, methodology, evaluation basis, examination results, conclusions and recommendations, if any.

Results and conclusions in the audit report must be substantiated and be verifiable.

Recommendations may be made once the auditor identifies likely and expedient means to rectify and improve circumstances highlighted.

If the auditor reports on breach of the law, including fraud, it is the responsibility of the administrative management to decide whether the offence should be reported to superior authorities, the police, etc. The auditor's reporting should specify this assignment of responsibility.

When the result of the audit is reported on, a presentation must be provided which includes all relevant matters.

The points of view which the auditee may have made in the course of the examination should loyally be incorporated in the report or memorandum.

It must be stated clearly and unambiguously what are audit viewpoints and what are critical comments.

The reporting must clearly present the questions and problems which the decision-maker should address.