Annual Report 2008
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The year 2008 will be remembered as the year of financial disasters, lost opportunities, lost assets, debt accumulation, disappointment and anger. In October 2008, emergency legislation was passed to save Iceland's financial system when three of its largest banks collapsed over a relatively short period at the beginning of the month. Three new banks were established and resolution committees took over the management of the old banks. Efforts to maintain the operability of Iceland's payment systems were successful, although foreign trade was disrupted and currency exchange restrictions were established and remain in effect.

It is fairly certain that the credit crunch and the bankruptcy of banks overseas was what, in the end, led to the failure of the Icelandic banks. However, there is a general consensus that their size far exceeded the limits that the Icelandic economy could support. It has also been pointed out that a weak currency and insufficient foreign currency reserves led to substantial risks in the banks’ operations and played a part in their failure.

The establishment of three new state-owned banks means new tasks for the Icelandic National Audit Office. According to the provisions of the National Audit Act, the Office is responsible for auditing the banks. Since the Office does not have the specialist knowledge necessary to audit commercial banks, the decision was made to tender out this task. The State Trading Centre was responsible for issuing the invitation to tender on behalf of the Office. The tender specifications stipulated, among other things, that each bidder would only be permitted to audit one bank and could not be the most recent auditor of that bank’s predecessor. Audit agreements for the years 2009 and 2010 were signed at the beginning of 2009.

As the authorities wish to hasten as much as possible the evaluation of the assets that were transferred to the new banks, the National Audit Office decided to hire an entities, without prior invitation to tender, to audit the initial balance sheets of the banks and their 2008 financial statements. The National Audit Office and the auditing firms in question will jointly sign these statements. However, delays in hiring experts to evaluate the assets of the old banks have posed some difficulties to both the banks and their auditors. In addition, the manner in which the evaluation is to be performed and the methodology to be used have only recently been announced. This hold-up has delayed preparations of the initial balance sheets and their auditing.

There has been some discussion about the involvement of the National Audit Office in the affairs of the old banks. The Office is of the opinion that, as the Boards of the banks have been
set aside and their auditors remain the same, the Office bears no responsibility pursuant to law for their auditing.

In early 2008, the Althingi (Iceland's Parliament) approved rules on the parliamentary treatment of the Office's reports. These provide for such reports to be sent to the appropriate parliamentary committees for discussion. Since then, the Office has issued 10 reports, but only half of these have been presented to parliamentary committees. It is clear that the National Audit Office's reports would be of greater use to the parliament in its monitoring of the executive branch if they were always discussed in an organised manner in committees.

In 2008, the Althingi passed new legislation on auditors, based on an EU directive. The legislation contains stricter provisions on the statutory requirements placed on auditors and auditing procedures. It also contains a provision stipulating that auditors shall perform their duties in accordance with internationally accepted accounting standards. Even though the standards have not been adopted into our legislation, the new act contains a provision stipulating that these standards shall nevertheless be applied. It is clear that this legislation has an effect on the financial auditing performed by the National Audit Office. As a result, the Office has been changing its procedures to comply with the requirements laid out in the Act.

The new Act, moreover, means changes to the certification of the financial statements of public bodies, enterprises and funds that fall within the scope of the National Audit Office. The changes call for more extensive and more expensive auditing than has previously been the case. In my opinion, this is unfortunate, particularly in the case of smaller operating units. The legislature should examine the possibility of changing the auditing provisions with special legislation, so that smaller operating units will be allowed to submit financial statements with review certifications.

The activities of the National Audit Office were as normal in 2008, although the collapse of the banks led, as previously noted, to certain changes in the Office's tasks. The number of auditing reports and certified annual accounts decreased slightly from the previous year, while the number of reports and papers increased somewhat. This report describes employee work contributions over the course of the year and the manner in which such contributions are divided between the principal tasks of the Office.

There was an approximately ISK 30m surplus from the operation of the Office in 2008. Several items contributed to these excellent results. However, the fact that vacant positions were not filled until late summer weighs heavily in this respect. By year-end 2008, there were 49 permanent employees within the Office and one temporary member of staff. Man-years amounted to 45 when calculated based on daytime work and 47.5 when based on job accounting records. 2008 saw the completion of the first floor of the Office's facilities at Skúlagata 57, and as a result the entire building is in use for the Office's activities.

In the middle of the year, Sigurdur Thórdarson resigned from the position of Auditor General after 16 years in office. It has to be said of Sigurdur that he has been a dynamic manager with clear views on the tasks and procedures of public bodies. When he became the Auditor General in 1992, Sigurdur was instrumental in developing the present form of the National Audit Office after it had been transferred under the auspices of the Althingi at the beginning of 1987. The Office's staff would like to take this opportunity to thank Sigurdur for his pleasant, productive and effective work, and wish him well in all his future endeavours.
STATUS AND ROLE OF THE NATIONAL AUDIT OFFICE

The National Audit Office is an independent body operating under the auspices of the Althingi (Iceland’s parliament). The Office is a part of the legislature and it’s monitoring of the executive branch. Its main role is to audit the financial statements of central government bodies, monitor and promote improvements in the financial management of the State and in the use of public monies. The autonomy and independence of the Office is dependent on it selecting and organising its own projects, even if the Office is constitutionally under the auspices of the Althingi. The Presidential Committee of the Althingi, however, may require the Office to submit reports on matters that fall within the mandate of the Office. In such cases, however, the Office determines the approach to the subject matter, its focus, methods, when the report is completed and the manner in which the conclusions are presented.

The National Audit Office operates in accordance with the applicable legislation (Act No. 86/1997) and, additionally, bases its activities on the standards and guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI), which are intended to ensure secure and professional working practices for auditing in the public sector. Furthermore, the Office has established a Code of Professional Conduct for its employees that is based on both the INTOSAI Code of Ethics and the Government Employees Act No. 70/1996. The key points of the Code include: credibility, independence, integrity and professionalism.

Taking into account the National Audit Act, standards and guidelines, the National Audit Office has defined its principal tasks in the following manner:

Financial auditing: The auditing of the Central Government Accounts and the accounts of public bodies and enterprises in which the State owns at least half or more of the shares. The auditing of the accounts of entities that operate under the auspices of the State or provide statutory services or undertake other projects in exchange for payment or contributions from the State Treasury. Suggestions on what improvements may be made to accounting, the preparation of financial statements and financial management.

Performance auditing: Evaluations of the performance of public bodies, state-owned enterprises and parties that accept contributions from the State. Assessments of economy, efficiency and effectiveness. Suggestions on how performance may be improved.

Internal auditing: Examinations of the internal controls of public bodies and state-owned enterprises. Suggestions for improvements in this field.

IT auditing: Examinations of the security and effectiveness of state-owned IT systems. Suggestions for improvements in this field.
Monitoring the implementation of the Government Budget: Monitoring whether public bodies operate in accordance with the Budget, the Government Financial Reporting Act and the Regulation on the Implementation of the Government Budget.

Legal opinions: Discussion of legal issues that relate to the Office’s scope of activities.

Monitoring the finances of self-owned organisations (foundations): Monitoring the accounts of funds and public bodies operating in accordance with approved charters.

Monitoring the finances of political parties and political candidates: Monitoring the accounts and finances of political parties and individuals in pre-elections.

It must be noted that the above tasks often overlap and are connected in various ways. Moreover, the definition of a task may change in accordance with the Office’s change of focus from time to time. In this respect it should be mentioned that the National Audit Office may, by law, examine the extent to which government authorities implement plans, legal instructions and obligations within the scope of environmental affairs. This task has not been addressed to any great extent in recent years, a situation that will change in the near future.

By law, the National Audit Office has a very broad mandate for auditing. It may call for financial statements from public bodies, associations, funds and any other bodies that receive Government funds or guarantees. Furthermore, it is permitted access to original documents and reports prepared in relation to invoices issued to the Government, in order to verify the content of the invoices and the Treasury’s payment obligations. Finally, the Office may request reports on the disposal of grants and other contributions from public funds, and assess whether such payments have achieved the intended results.

The National Audit Office notifies the appropriate public bodies – the Althingi, the media and the public – of the results of its investigations through printed reports, press releases and its website, www.rikisend.is. Results that touch on sensitive internal issues of public bodies, however, are not made public. The Althingi discusses the reports of the National Audit Office in accordance with the Althingi Procedures Act No. 55/1991 and separate rules established in 2008 (see page 27).
Employee Work Contributions

In 2008, the recorded working hours of the National Audit Office’s employees came to a total of 99,000, which is equivalent to 47.5 man-years (based on 2,080 hours in each man-year). This is similar to the figure for the previous year. Active man-hours were 80,800. Active man-hours refers to the hours employees were at work, with absences, due to illness or vacation, for example, excluded. In addition, the Office purchased services from auditing firms corresponding to approximately 3,300 working hours. In total, therefore, the staff of the National Audit Office and others working on its behalf worked a total of over 84,000 active man-hours in 2008.

The largest proportion of active man-hours by far was spent on financial auditing, approximately 45%. Approximately 16% of active man-hours were spent on performance auditing, 8% on internal auditing and 6% on audits of IT systems. A total of approximately 9% of active man-hours were spent on various other monitoring tasks, including the monitoring of Budget implementation, confirmed funds and the finances of political parties. Moreover, approximately 16% of active man-hours were spent on central management, operation and various kinds of support services.

Proportional division of active man-hours according to tasks in 2008

- Financial auditing (45%)
- Performance auditing (16%)
- Internal auditing (8%)
- IT auditing (6%)
- Other monitoring tasks (9%)
- General management, operation & support services (16%)
Operating Costs

The National Audit Office’s total expenditure, net of revenues, was ISK 451.8m in 2008, up by ISK 41.3m (10%) from 2007. The year’s budget appropriations amounted to ISK 482.2m and the surplus, therefore, amounts to ISK 30.4m. Payroll costs rose by ISK 37.4m (12%) between years and amounted to 79% of the Office’s expenses, net of revenues. Other operating costs and purchased assets, however, increased by a total of ISK 9.6m (9%). The largest single operating cost item apart from payroll costs is expert services purchased from auditors for a total of ISK 42.0m. Purchased assets amounted to ISK 18.6m and can largely be attributed to work on the new wing in the Office’s premises at Skúlagata 57. User fees were ISK 8.2m (26%) higher than in 2007. Further information on the Office’s operations and financial position may be found in the financial statements and accompanying notes on pages 38 to 49.

<table>
<thead>
<tr>
<th>Items</th>
<th>2008</th>
<th>2007</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>357.5</td>
<td>320.1</td>
<td>37.4</td>
<td>12</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>115.9</td>
<td>106.3</td>
<td>9.6</td>
<td>9</td>
</tr>
<tr>
<td>Purchased assets</td>
<td>18.6</td>
<td>16.3</td>
<td>2.3</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>492.0</strong></td>
<td><strong>442.6</strong></td>
<td><strong>49.4</strong></td>
<td><strong>11</strong></td>
</tr>
<tr>
<td>Revenues</td>
<td>40.2</td>
<td>32.0</td>
<td>8.2</td>
<td>26</td>
</tr>
<tr>
<td>Cost net of revenues</td>
<td>451.8</td>
<td>410.5</td>
<td>41.3</td>
<td>10</td>
</tr>
<tr>
<td><strong>State contribution</strong></td>
<td><strong>482.2</strong></td>
<td><strong>416.8</strong></td>
<td><strong>65.4</strong></td>
<td><strong>16</strong></td>
</tr>
<tr>
<td>Surplus (deficit)</td>
<td>30.4</td>
<td>6.3</td>
<td>24.1</td>
<td>383</td>
</tr>
</tbody>
</table>

Financial Auditing

The National Audit Office annually audits the Central Government Accounts and the accounts of ministries, agencies, funds and other parties whose costs and expenses or financial loss is funded by the Treasury. By law, the financial audits must determine the following in particular:

- That the financial statements present a fair view of operations and the financial position in accordance with generally accepted accounting principles.
- That internal controls are examined to ascertain whether they ensure adequate results.
- That accounts are in accordance with Budget authorisations, the supplementary Budget or any other appropriate laws, lawful instructions, business practices or service contracts.
- That the reliability of key indicators on the scope and results of the operation are examined and certified, if such indicators are published with the annual accounts.

Financial auditing is the most extensive task undertaken by the National Audit Office. In 2008, a total of 36,300 working hours were spent on financial auditing or the equivalent of 45% of the total number of active man-hours spent by the Office. The National Audit Office applies generally accepted procedures in its auditing, including standards used by the International Organisation of Supreme Audit Institutions (INTOSAI). Efforts are continuously being made to
improve the work procedures used. Work continued in 2008 on adopting an electronic project and document management system (TeamMate) for financial auditing. This work was initiated in 2007. The system is expected to become fully operational later this year. Many of the National Audit Office’s sister agencies in neighbouring countries use the same system, which makes, among other things, the organisation and management of projects easier and is useful in risk analyses.

The National Audit Office annually publishes an official report containing an overall summary of all the financial audits that it has performed during the year, the principal results of such audits, and comments. In 2008, this report was published in November and entitled *Audit of the Central Government Accounts 2007* (see page 24).

The output of financial auditing consists for the most part of certified annual accounts and auditing reports for individual public bodies or Budget items. As the auditing is mainly based on standardised methods and examination items, comparisons of the numbers of these products from year to year is realistic. On making such comparisons, however, account must always be taken of the resources used in the operation, e.g. the amount of funds or work, as these may differ between years. Thus the efficiency of the operation may be assessed, i.e. as regards the ratio between products and resources.

In 2008, the Office certified 305 annual accounts and prepared 222 audit reports. This is a somewhat lower number than in 2007, when there was also a reduction between years, as may be seen in the following table. The development can generally be explained by the fact that the number of hours spent on financial auditing has decreased in recent years. The reduction between 2006 and 2007 was 8%, and approximately 7% between 2007 and 2008. Conversely, efficiency has increased slightly. Efficiency is calculated by dividing the number of active man-hours by the total number of certified annual accounts and auditing reports.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified annual accounts</td>
<td>344</td>
<td>328</td>
<td>305</td>
</tr>
<tr>
<td>Audit reports</td>
<td>241</td>
<td>230</td>
<td>222</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>585</strong></td>
<td><strong>558</strong></td>
<td><strong>527</strong></td>
</tr>
<tr>
<td>Efficiency</td>
<td>0.0137</td>
<td>0.0143</td>
<td>0.0145</td>
</tr>
</tbody>
</table>

If purchased services are included, annual accounts number 402 and auditing reports number 296, as compared with 389 annual accounts and 279 auditing reports in 2007.

**Performance Auditing**

Through its performance audits, the Office seeks to evaluate the performance of public bodies and state-owned enterprises, i.e. whether their operation is economic, efficient and effective. *Economy* refers to how successfully costs are kept down, *efficiency* refers to how well resources are utilised and *effectiveness* to whether set goals are achieved. When performing this work, the Office takes account of the National Audit Act and the standards and guidelines issued by INTOSAI.
In 2008, a total of 13,400 hours were spent on performance auditing, or the equivalent of 16% of the total number of active man-hours spent by the Office. 8 official reports were completed.

A proportion of the audits are, as a rule, performed at the request of the Presidential Committee of the Althingi, individual ministries or public bodies. Others are carried out on the initiative of the National Audit Office. The work schedule of the Office's Performance Audit Division for 2007–09 specifies the sectors on which the Office-initiated audits shall be focuses. The choice of sectors is based, among other things, on risk assessment that involve analysing where the greatest risks of an operation not being as economic, efficient and effective as possible lie. In 2008, work began on reviewing this schedule, with the objective of improving the methods used in risk assessment. Plans have been laid to complete the preparation of a new work schedule during the first half of 2009. The new schedule will apply for the period 2009–11.

It is difficult to compare the output of performance auditing between years due to the fact that the audits differ in approach, method, scope, work and the time they require. As a result, comparing the number of reports, as can be done when assessing the productivity in financial auditing, is unrealistic in performance auditing. However, the National Audit Office seeks to evaluate the results of performance auditing by examining reactions from the authorities and public bodies to the recommendations stated in the reports. Such follow-ups are generally performed three years after the recommendations were aired. Results are evaluated based on whether the recommendations have, beyond doubt, been implemented fully or partly.

In 2008, the Office prepared follow-up reports on four performance audits from 2005 and sent them to the public bodies and ministries involved. A summary of these is given in the table below. However, it is shown with the proviso that there may be some disagreement as to whether and to what extent recommendations have been acted on.
Internal Auditing

Regular Government financial auditing includes examinations of particular items relating to internal controls within public bodies. Additionally, every year the National Audit Office carries out several more extensive audits of the internal controls of public bodies where further items are examined. Such tasks are referred to as internal auditing. In 2008, a total of 6,770 working hours was spent on such auditing, or approximately 8% of the total active man-hours expended by the Office. A total of 9 reports in the field of internal auditing were completed.

Work, which began in 2006, on the examination of internal controls in the administrative offices of the ministries, continued in 2008. An examination was made of the manner in which the offices had organised their internal controls and how their monitoring of agencies, collective items, contracts, grants and other items was handled. Initially the plan was to complete a comprehensive report in September 2008, but the work was delayed. The Office plans to complete the report in May this year. Furthermore, in 2008, an extensive audit was performed on risk management and internal controls in the collection and treatment of value added tax.

To assess the results of internal auditing, the National Audit Office examines the manner in which public bodies respond to the recommendations put forward in the reports. Such follow-ups are generally performed a few years after a report has been submitted. In 2008, such follow-ups were performed on two reports from earlier years. The investigation revealed that the recommendations had led to improvements in approximately 65% of cases. This is slightly poorer than the result of the 2007 follow-up investigation, which revealed that over 70% of the recommendations in reports from 2003 and 2004 had led to improvements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reports</th>
<th>Recommendations</th>
<th>Implemented fully or partly</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5</td>
<td>38</td>
<td>27</td>
<td>71%</td>
</tr>
<tr>
<td>2008</td>
<td>2</td>
<td>44</td>
<td>34</td>
<td>65%</td>
</tr>
</tbody>
</table>

IT Auditing

IT auditing is closely linked to both the financial auditing and performance auditing carried out by the National Audit Office. The goal of such auditing is to examine whether the computer and information systems of central government bodies and enterprises are secure and efficient, and to make recommendations for

<table>
<thead>
<tr>
<th>Year</th>
<th>Reports</th>
<th>Recommendations</th>
<th>Implemented</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5</td>
<td>154</td>
<td>108</td>
<td>70%</td>
</tr>
<tr>
<td>2008</td>
<td>4</td>
<td>42</td>
<td>38</td>
<td>90%</td>
</tr>
</tbody>
</table>
improvements. In such work, account is taken of the National Audit Act, the guidelines of INTOSAI and the guidelines of the Financial Supervisory Authority on the operation of the IT systems of parties subject to supervision.

Usually, reports on IT audits are sent only to the public bodies being audited and to the relevant ministry, as these reports regularly include information on sensitive internal issues, such as the security of the systems. It would be irresponsible to publish such reports and allow information on the possible weaknesses of the systems to become common knowledge before any such weaknesses could be remedied.

In 2008, a total of 4,600 working hours were spent on IT auditing, the equivalent of 6% of the total number of active man-hours spent by the Office. A total of 7 audits were completed. The staff involved in auditing IT systems were also responsible for operating the National Audit Office’s computer systems. Moreover, they oversaw the implementation of a project and document management system, initiated in 2007, for use in the agency’s financial auditing work.

Other Monitoring Tasks

In 2008, the National Audit Office spent a total of 7,000 working hours on monitoring projects other than those specified in the preceding pages. This constitutes approximately 9% of the total number of active man-hours during the year. These tasks included monitoring the implementation of the Budget, monitoring contracts and grants, legal opinions, monitoring the finances of political parties and political candidates and monitoring self-owned organisations.
Monitoring the implementation of the Government Budget

In addition to regular financial auditing, the National Audit Office is responsible for monitoring the implementation of the Government Budget in accordance with legislation applicable to the Office. This means examining whether public bodies comply with the provisions of the Budget, the Government Financial Reporting Act and the Regulation on the Implementation of the Government Budget. The Office annually publishes a report on the results of this work. In 2008, this report was published as the *Implementation of the 2007 Government Budget and annual plan for 2008* (April).

Monitoring contracts and grants

The National Audit Office is responsible for monitoring the execution of contracts that the State has made with private entities, including for the purchase of services. One report on such monitoring was published in 2008: *Sóltún Nursing Home. An Examination of RAI-registration and payments for the year 2006* (February). Moreover, the Office monitors the manner in which Government grants to private entities are disposed of.

Legal opinions

Every year, the National Audit Office must discuss or provide its opinion on various legal questions relating to central government administration. This is done in accordance with the “Lima Declaration of Guidelines on Auditing Precepts”, which specifically states that “supreme audit institutions may provide Parliament and the administration with their professional knowledge in the form of expert opinions, including comments on draft laws”. Whether such opinions are made public depends on the nature of each case. An example of issues of this nature, which was publicly discussed in 2008, may be found in the report *Keflavík Airport. Water damages and the Keflavík Airport Development Corporation ehf. (KADECO). Performance Audit.*

Monitoring the finances of political parties and political candidates

According to Act No. 162/2006 on the Finances of Political Parties and Political Candidates and on their Disclosure Requirements, the responsibilities of the National Audit Office include monitoring the finances of these entities and publishing a summary of their financial statements. The Office has issued rules on the financial reporting of political parties and political candidates on the basis of the Act.

In 2008, the Office requested the accounts of the political parties for the first time, i.e. for the 2007 accounting year. The initial deadline was 31 October but only two parties were able to submit their statements before that date. The National Audit Office’s rules stipulate that the accounting year shall be the calendar year. The reason why some parties were unable to submit their statements on time was that their various member associations based their accounting year on a different timeframe. The Articles of Association of the associations had to be amended and this, in many cases, took much longer than anticipated. The last financial statements were delivered to the Office in March 2009 and information from all of them was subsequently made public. It is anticipated that the accounts of the parties for the year 2008 will be handed in around mid-year or shortly thereafter this year and that it will be possible to publish summaries of them no later than this autumn.
Monitoring self-owned organisations

For some time, the National Audit Office has monitored funds and public bodies operating in accordance with an government-approved charter. At the moment, just under 700 such self-owned organisations are in operation. This task entails maintaining records of total income and total expenses as well as the assets and liabilities of all such funds and public bodies, including notes with the submitted accounts.

Human Resources

On 31 December 2008, the National Audit Office had 49 permanent employees, two more than at year-end 2007. The ratio between men and women was almost equal, i.e. 24 women and 25 men. The average age of employees was 48.5 years, very similar to what it was in 2007.

Employee turnover is defined as the proportion of employees who resign during the year out of the total number of employees at the year-end. During the period 2005–07, employee turnover at the National Audit Office grew continuously in tune with the general upswing in the labour market. As can be seen from the following table, the situation changed last year as conditions in the labour market worsened. The ratio of those with at least 3 years experience at the Office was 66% in 2008, and the average length of service was 11.5 years.

<table>
<thead>
<tr>
<th>Work experience and staff turnover</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>With 3 years' work experience at INAO</td>
<td>80.9%</td>
<td>66%</td>
<td>66%</td>
</tr>
<tr>
<td>Average length of service at INAO</td>
<td>11.5 year</td>
<td>10.4 year</td>
<td>11.5 year</td>
</tr>
<tr>
<td>Staff turnover</td>
<td>14.9%</td>
<td>17%</td>
<td>6%</td>
</tr>
</tbody>
</table>
The National Audit Office is committed to hiring well-educated staff, the percentage of employees holding a university degree being approximately 83% in 2008. It has, in fact been over 80% for the past six years. At year-end 2008, there were 29 employees with degrees in business administration or economics, four with degrees in political or administrative sciences, three were lawyers, two were computer or systems analysts and one employee had a degree in Icelandic studies. Furthermore, there were five chartered accountants and three with certification in internal auditing (CIA). One of them is also a Certified Government Auditing Professional (CGAP), and another has certification in IT auditing (CISA).

The National Audit Office, in accordance with its educational policies and the provisions of the INTOSAI auditing standards, endeavours to ensure that staff maintain and strengthen their theoretical and practical knowledge through continuing education and retraining. Employees attended a diverse range of courses during the year. In general, the courses chosen are ones likely to increase employees’ competency at carrying out their tasks. In the case of competencies that many employees need to attain, the Office has generally purchased courses tailored to its needs. In 2008, therefore, a course was held on the art of writing good Icelandic, which employees from all the Office’s departments attended. A course was also held on performance auditing methods for the employees of the performance auditing division. The latter course was organised in co-operation with the UK National Audit Office, which also provided educational material and an experienced supervisor.

Publications and External Communication

The National Audit Office makes every effort to disseminate information to society in general about itself and its role and operations. The Office does this by distributing official reports to members of parliament and the media, issuing press releases and maintaining a website, www.rikisend.is. The Office makes a particular effort to tailor its reports to the needs of the Althingi, as such reports are intended to be of use to the Althingi in its monitoring of the executive branch.

A proportion of the reports generated by the Office every year are in fact never made public, the reason being that these contain sensitive information about the internal issues of public bodies. The publication of such information is believed to be harmful to the operation in question.

The National Audit Office has, for several years, endeavoured to measure the public’s interest in its reports by monitoring how often they are accessed on the Office’s website. It is clear that interest has increased considerably during the past two years. In 2008, the 243 reports on the Office’s database were accessed a total of 34,699 times. In comparison, it may be mentioned that in 2007, the 230 reports in the database at the time were opened a total of 45,052 times.

The official reports of the National Audit Office must fulfil certain quality requirements. The goal is to ensure that members of parliament and other anticipated readers find it easy to familiarise themselves with the material under discussion from time to time. Readers are not expected to have extensive prior knowledge of the material, although they are expected to know the principal tasks of the Government and the manner in which the administration is arranged. In the reports, the main facts on the issues and the criteria for the conclusions must be stated clearly, as should the Office’s evaluation and recommendations for improvement. The reports
must be written in clear and uncomplicated modern language, and the text must be concise. Specialist or technical wording should be avoided in the body of the text, although such discussion is sometimes included in attachments. Last year, a special quality committee for publications was established within the Office to scrutinise drafts of papers intended for publication and to ensure that they meet the above requirements.

One of the main goals of the National Audit Office’s external communication is to maintain its trustworthy image in society. In 2008, the company Capacent Gallup was requested to survey public opinion of the Office. The survey’s sample was approximately 1,300 people randomly selected from the National Registry, 801 or 61% of whom responded. The survey revealed, among other things, that 64% of respondents trusted the Office. These are positive results when the results of the Gallup National Opinion poll, conducted at the same time, are taken into account. This survey revealed, among other things, that 90% trusted the University of Iceland, 80% trusted the police, 68% trusted the health system, 62% trusted the Althingi Ombudsman and 61% trusted the State Mediator.

The survey also showed that the term “monitoring” was the first concept that came to mind when the National Audit Office was mentioned. Approximately 80% believed that the Office was conservative, while 12% considered it to be progressive. Moreover, 79% of respondents stated that they made strong demands of the Office and 73% believed, in fact, that it should be more visible in the media and the general debate. However, the Office finds it worrying that approximately half of the respondents do not believe that it provides the Government with adequate checks. Plans have been made to strengthen information dissemination to the public about the role and work of the National Audit Office.
International Relations

In order to ensure that the operation of the National Audit Office develops in tune with international trends, the Office focuses on good relations and co-operation with its overseas counterparts. The Office has a long history of co-operation with the national audit offices of the Nordic countries, as well as of participation in the work of the European and international associations in this field, EUROSAI and INTOSAI. Moreover, the Office has engaged in bilateral communications with the national audit offices of several countries. As an example, the Office has formed strong ties with the UK National Audit Office (NAO), and has enjoyed its assistance in various projects in recent years.

The Office participates in collaborations on the auditing of multinational public bodies and associations of which Iceland is a member, e.g. EFTA, and international projects in the fields of environmental issues and international humanitarian aid work. Iceland’s increased participation in development projects in various parts of the world has placed obligations on the National Audit Office to audit such projects on behalf of the Icelandic Government.

In 2008, a total of 1,000 hours were spent on international relations, the equivalent of 1.2% of the total number of active man-hours spent by the Office. Its representatives attended the VII EUROSAI Congress in Poland, the meeting of the Working Group on Environmental Auditing in the Ukraine and the EUROSAI congress on the Auditing of Social Security Systems in the Czech Republic. Furthermore, employees attended two meetings of a Nordic working group on performance auditing in the health sector in Copenhagen. Moreover, the Office’s information and training officer met with Nordic colleagues in the Faeroe Islands and Copenhagen. An employee was engaged in a special audit of EFTA bodies in co-operation with a Norwegian colleague, and another took part in auditing projects that the EFTA Development Fund has supported. Finally, the Office’s representative on the EFTA Board of Auditors (EBOA) attended several overseas meetings relating to the work of the Board.
Last autumn, the Office organised a Nordic seminar on performance auditing in Reykjavik. The seminar discussed the training of employees that are responsible for performance auditing, time management in audits and the risk analyses that are used in strategy formulation and project selection. In total, the seminar was attended by 13 employees from the Office’s sister agencies in Denmark, Finland, the Faeroe Islands, Norway and Sweden.
In 2008, the National Audit Office published a total of 11 official reports containing the results of audits. The following are short summaries from the reports.

January

The Local Government’s Equalisation Fund and the Primary School
The Office pointed out that the cost of operating primary schools varied considerably between municipalities. This was traced for the most part to different size of the schools and thereby the effective utilisation of full-time-equivalent positions (FTEs). At the same time, it is clear that the proportion of primary school students of the total number of residents in a municipality and population density are matters of great importance. The purpose of the Local Government’s Equalisation Fund, among other things, is to equalise differences in the cost of running primary schools and to ensure that all municipalities in Iceland are in a position to meet minimum requirements for schools. The National Audit Office was of the opinion that these costs could be evened out even more than is currently the case by simplifying the rules that the Fund uses when granting allocations. Moreover, the Fund could be better used to increase the quality of school work and thereby reduce the differences that exist between schools in this respect. Furthermore, it is important that the Ministry of Education, Science and Culture increases its monitoring of primary school work and that the local authorities establish standardised classifications for costs in financial statements.

February

Keflavík Airport. Water Damages
At the end of November 2006, the Ministry for Foreign Affairs requested that the National Audit Office examine the supervision and administration of the Ministry, its agencies and other parties of the buildings in the defence area at Keflavík Airport when water damages occurred in several of these. The Office’s conclusion was that although there were several aspects of the transfer of installations and operations at Keflavík Airport after the departure of the Defence Force that could be criticised, it could not be said that the water damages in question could be traced to any direct negligence on the part of those responsible for the area, i.e. the Ministry for Foreign Affairs and its work group. It is much more appropriate to consider that the damages could for the most part be attributed to events that were difficult to foresee, particularly unusual weather patterns and the unusual arrangement of water utilities in the area.
March

Keflavík Airport Development Corporation ehf. (KADECO). Performance Audit
The reason for the examination was assertions in the public debate to the effect that the full interests of the State had not been protected when assets in the former defence area at Keflavík Airport were sold. The National Audit Office pointed out that the Keflavík Airport Development Corporation had, by law, been appointed to manage the facilities in the former defence area at Keflavík Airport and to handle the future development of the area on behalf of the Icelandic State. It had therefore been fully within the company’s rights to sell the State’s assets in the area without the involvement of the State Trading Centre, and the company has not been under any obligation to put them out to tender. Moreover, the interests of the State had been protected when the facilities were disposed of. However, the Office was of the opinion that more care could have been taken as regards the competency requirements of Board members and the Managing Director of KADECO in the sale. It could not have been foreseen, however, that such factors could have had an effect on the sale or could have caused the invalidation of the sales agreements.

April

The National Audit Office criticised failures in the implementation of the Budget and the lack of respect for its binding instructions. The Office pointed out that, according to the provisional results of the Financial Auditing staff, approximately a quarter of budgetary items had deficits and approximately 70% of these had had a surplus at year-end 2007. Particular note was made of the responsibility of the ministries in this respect, and of the necessity that such responsibility be made clearer in laws and regulations. Moreover, the Office restated that in the past two decades it had repeatedly drawn attention to various failures in the implementation of the Budget, lack of respect for its binding instructions and general lack of discipline in the operation of numerous public bodies. These criticisms, however, had little impact.

Sóltún Nursing Home. Examination of RAI-Registration and Payments for the Year 2006
The National Audit Office decided, in consultation with the Ministry of Health, to examine the registration and calculation of the RAI weight-of-care coefficient for the Sóltún Nursing Home. The coefficient provides indications of the health of the residents and their care requirements, and is the basis for the State’s payments to the Home in accordance with a service agreement. The Office concluded that the recording of items on which calculations of the weight of care for 2006 were based had not been made in accordance with instructions. Therefore, the results of the calculations had been incorrect and the coefficient higher than it should have been. As a result, the Home was not entitled to the contractual additional payment from the State that the Home’s management had maintained it was.

May

The Directorate of Labour. Performance Audit
The Office pointed out the necessity of reviewing the internal organisational structure and management of the Directorate of Labour, reaching a performance management agreement with the Directorate and formulating professional policies for it. Moreover, the Office was of the opinion that the current administration of the funds managed by the Directorate of Labour was
overly complicated and that their simplification could improve services to beneficiaries, increase efficiency and reduce administrative costs. The Office recommended that the Boards of the funds be disbanded and that the Directorate of Labour’s management of such funds transferred to a new welfare institution responsible for all pension, health, accident and labour market related insurance and benefits. Moreover, the Office recommended that a formal examination be made of whether the Directorate of Labour should be merged with the Administration of Occupational Safety and Health into a single strong body in the field of labour market issues. Whether such a step were to be taken or not, the National Audit Office believed that it could be economical to merge the service offices of the Directorate of Labour and the area offices of the Administration of Occupational Safety and Health in Iceland into one office for labour market issues in each location.

Commissioner of Police for Sudurnes
The Office pointed out that various benefits had resulted from the integration of all police and customs operations in Sudurnes in 2007, including a proportional reduction in management costs and increased efficiency in handling prosecutions. The National Audit Office believed that the police authority’s financial problems have been caused by increases in operations relating to security, drug smuggling surveillance and issues relating to NATO. The Office agreed with the Ministry of Justice’s proposals regarding the future organisation of police, customs and security operations in Sudurnes which, among other things, anticipate that the responsibility for tasks in the fields of customs and flight safety issues will be transferred from the authority. In the opinion of the National Audit Office, the authority could possibly continue to be entrusted with the day-to-day management of these tasks in accordance with special service agreements. Moreover, the National Audit Office was of the opinion that the Ministry of Justice and the Sudurnes Police Commissioner had decided to resolve their differences and work together on the planned changes to the organisation and operation of the authority.

Follow-ups to the 2004 performance audits
The National Audit Office seeks to evaluate the responses of the authorities and public bodies to the suggestions and comments contained in its performance audits. This is done by means of follow-up audits three years after the suggestions are put forward. In 2007, five audits from the year 2004 were followed-up in the above manner. A total of 38 suggestions were put forward in these reports. Of these, the National Audit Office considered that 21 (55%) had been implemented in full, 6 (16%) partially and 11 (29%) had not been acted on at all.

June

Transport Infrastructure Projects. Performance Audit
The recommendation was made that the authorities examine the possibility of changing the organisation of transport infrastructure issues so as to better separate administration and implementation and to encourage the more economical utilisation of funds. An independent body would be appointed to handle all administration in the field of transport infrastructure issues. Another body would be appointed to handle all transport infrastructure construction, i.e. to formulate and prepare the National Transport Policy and to be responsible for the execution of the Policy once approved by the Althingi, including the design of installations, preparation of cost estimates, putting projects out to tender and monitoring such projects. A state enterprise would then be appointed to handle the operation and maintenance of transportation infrastructure installations, i.e. the road system and airports, as well as related items, such as lighthouses and IT systems that manage the traffic of aircraft and ships. Irrespective of the
organisational changes, the National Audit Office believed that it was important to plan for rules and methods that could lead to more economical and more successful transportation infrastructure projects than those currently operating, in order to increase discipline in the execution of the National Transport Policy, among other things.

November

Audit of the Central Government Accounts 2007
In the report, the National Audit Office reported on the audit of balance sheet items in Group A of the Treasury, Government revenue, public bodies in Group A, enterprises in Groups B, C, D and E, the pension funds of government employees and the Church of Iceland. The audit of balance sheet items was for the most part free of comments, although the National Audit Office did reiterate one of its comments from earlier years as regards the review and reconciliation of accounts receivable that do not change between years. The settlement of Government revenue was without material misstatements in the opinion of the Office. Nevertheless, it reiterated several comments from previous years as regards the definition of user fees in the Central Government Accounts and legislation on tax grants. In general, the National Audit Office finds that the accounts and finances of public bodies are in good order. However, the Office commented on the over- or under-utilisation of budgetary appropriations by many public bodies. A separate examination was made of the arrangement of IT issues in more than one hundred public bodies. The Office found that many public bodies that had custom-made IT systems had not had their internal controls assessed. The National Audit Office is of the opinion that it is vital that all public bodies with such systems have these controls assessed. Moreover, the Office pointed out the necessity of specifying in the Central Government Accounts the enterprises in which the State is a majority shareholder in Groups A to E, and that the Depositors’ and Investors’ Guarantee Fund should be removed from Group E of the Central Government Accounts.

The National Theatre of Iceland. Performance Audit
It was revealed that the National Theatre was generally successful in performing its statutory role and has achieved measurable goals. However, its management has not been able to make ends meet in its operation. Over the past few years, theatre attendance has not increased in line with increases in the number of staged productions and performances. Costs, therefore, have grown proportionately more than income. The accrued deficit amounted to approximately ISK 70m by year-end 2007. The National Audit Office is of the opinion that it is vital that the National Theatre keeps its operation within budgetary limits. It is important to achieve a better balance between income and expenses, and to repay loans. To this end, the theatre needs to seek ways to increase attendance to its productions and thereby its income. Furthermore, it is vital that project accounting and planning is improved and that the performance management agreement between the National Theatre of Iceland and the Ministry of Education, Science and Culture is better utilised as a management and control tool.
RULES ON THE PARLIAMENTARY REVIEW OF THE REPORTS OF THE NATIONAL AUDIT OFFICE

Last year, the Presidential Committee of the Althingi established rules on the parliamentary review of reports from the National Audit Office, as previously there had been no such rules. The goal was to further formalise communications between the Office and the Althingi, and with the members of the Althingi in general, and to ensure that the Office’s reports are discussed in parliamentary standing committees and, as appropriate, by the Althingi itself. The rules will, without a doubt, encourage more detailed discussion of the Office’s reports in the Althingi and thereby strengthen its monitoring role.

Article 1
The reports and papers issued by the National Audit Office, pursuant to Articles 7 and 9, cf. also Article 11 of the Nation Audit Act No. 89/1997, as amended, shall be sent by letter to the Speaker of the Althingi.

Article 2
The Speaker of the Althingi may, having taken into account the content of the reports, decide whether to send such reports to a parliamentary standing committee for discussion. If a report is referred to a committee, the Speaker shall send a letter to the committee’s Chairman stating such decision and requesting that the committee discuss the report. The Budget Committee shall discuss the National Audit Office’s reports on the audit of the Central Government Accounts, as well as its Annual Report, cf. the third paragraph of Article 25 of Althingi Procedures Act.

Article 3
A committee, having received a report for discussion, shall decide on its manner of processing, including who it calls to a meeting with respect to the report’s content or from where the committee requests written opinions. The Auditor General is entitled to be present at the meetings of any committee that discusses a report from the National Audit Office, if he so requests.

Article 4
A committee, having received a report from the National Audit Office for processing, may request an opinion from another standing committee as regards its content or as regards particular aspects of its content, within the time frame stipulated.
Article 5
A committee may submit an opinion on a report from the National Audit Office if it considers this necessary, cf. the second sentence of Article 31 of the Althingi Procedures Act.

Article 6
In its opinion to the Althingi, a committee may submit a motion for a parliamentary resolution on the substance of the report, cf. the second paragraph of Article 26 of the Althingi Procedures Act.

Article 7
These rules shall enter into force immediately.

Approved by the Presidential Committee of the Althingi on 12 February 2008.
NEW TASKS AS A RESULT OF THE COLLAPSE OF THE BANKS

By Jón Loftur Björnsson, director at the National Audit Office

It is unnecessary to dwell on the substantial turnaround that occurred in the Icelandic economy in 2008, of which we have yet to see the final consequences. Following the great economic growth and increasing purchasing power of recent years, the rate of the króna fell, inflation rose and the downturn began to be felt in the business sector. The banking system, which had grown substantially over the course of a few years, not least after the banks began operating overseas, encountered difficulties when interest rates rose and their access to credit began to dry up. Finally, the banks collapsed in October 2008 when it became clear that they could not refinance their borrowings and the authorities did not have the capacity to save them as a lender of last resort.

The fact that many companies and homes were highly leveraged and encountered payment difficulties when falling currency rates and inflation increased loan principals, increases the difficulties of the national economy. Family incomes diminish when employment rates fall, and less demand in the economy reduces the income of companies. To this is added the falling prices of assets, such as real property and shares.

It is clear that the State will not avoid the effects of the present economic downturn. It is anticipated that the State’s tax revenues will shrink considerably when compared to those of recent years, at least during 2009 and 2010, and maybe for even longer. Debts will continue to increase because of guarantees payable by the State due to deposit guarantees, the refinancing of the banking system and deficits in coming years, although this is partially offset by assets. Furthermore, the Treasury must rationalise operations in order to create opportunities to deal with the various consequences of the downturn, such as growing unemployment, increased interest payments and instalments on loans, while at the same time ensuring that the deficit does not go beyond anticipated levels.

As of autumn 2008, the National Audit Office has been planning to change the focus of its operations to meet the present circumstances of government operations. However, the Office will continue to address its statutory and normal tasks of auditing and examining.

Firstly, by law, the National Audit Office is responsible for auditing the three new banks that took over the domestic operations of Glitnir, Kaupthing and Landsbankinn. The Office decided to appoint auditing firms to handle this work on its behalf because, among other things, of the specialist knowledge that such firms have of bank auditing. Nevertheless, the National Audit Office will be involved in this work, as the Office certifies the initial balance sheets and the first
annual accounts of the new banks, as well as subsequently monitoring the work that will be performed in auditing the banks as the buyer of audit services. It may also carry out separate examinations of selected aspects of the banks’ operations. Many questions have arisen in connection with the establishment of the new banks, including with respect to the evaluation of assets and liabilities, possible foreign currency and interest rate imbalances, and arrangements for when the time comes to collect on claims and to write down loans. It does not help matters that suspicions and distrust have been raised as regards the management of the banks, their auditors, monitoring bodies and other parties. The National Audit Office believes that its involvement in the auditing of the new banks and its monitoring of their operation may lessen such worries to some extent.

It should be noted that the National Audit Office is not responsible for the auditing of the old banks, the supervision of the disposal of their assets or their operations in other respects. As is commonly known, the Financial Supervisory Authority was granted extensive legal authorisation to take over the management of the banks and continue their operations while their assets were being disposed of and their debts paid. The banks are currently managed by resolution committees, which operate under the authority of the Financial Supervisory Authority, and have all been put into receivership. Various legal and accounting issues have arisen in connection with the operation of the old banks and their financial standing, for which no conclusion has been reached, but which will probably be resolved by means of agreements and/or before courts of law.

Issues relating to the old banks that fall within the Office’s scope of authority relate for the most part to monitoring payments to them from the Treasury and the assessment of the guarantees borne by the Treasury, e.g. as regards the IceSave accounts of Landsbankinn. In addition, the Office can carry out performance audits on the public bodies that are involved in the operation of the old banks. Performance auditing pursuant to Article 9 of the National Audit Act covers the “the handling and utilisation of public funds, whether economy and efficiency is being taken care of in the operations of institutions and state owned enterprises and whether applicable lawful instructions are being complied with in this context”.

Another important field is government finances and the effect of the economic downturn on them. As previously stated, the status of government finances has changed considerably for the worse due to the state’s reduced tax income and higher debts. This calls for increased controls in public spending, policy formulation for government activities for a longer period than has been the norm and greater discipline in Budget implementations. Undoubtedly there will be more importance placed on ministries and public bodies complying with the Budget and employing greater controls and economy in their operations. In recent years, the National Audit Office has repeatedly criticised the lack of controls in Budget preparations and in the implementation of the Budget. The tight financial position of the State calls, moreover, for more attention to be paid to performance, efficiency and economy in the operation of government entities. In response, the Office has initiated a project to further strengthen its monitoring of the implementation of the Budget, the effectiveness of internal controls, the implementation of cost-restraint measures, and to assess the effects of curtailed budget appropriations to the quality and volume of the services provided by the State. Ministries and public bodies will be visited and audits performed on various items that relate to their finances and operation. Consultation will be made with the Parliamentary Budget Committee as regards these audits and their results will be made public. The audit goals include reviewing the results of public bodies based on the 2008 Budget and seeking reasons for deviations, investigating submissions of operating plans for 2009, investigating whether changes have been made to the monitoring of the
implementation of the Budget and the manner in which monitoring is arranged as regards procurements and various other operating costs. Furthermore, an examination will be made of whether plans for further economisation have been prepared and an evaluation made of the effect of reduced funding to the operation.

Finally, mention must be made of the fact that experience has shown that during times of economic privation there is generally a greater danger of fraud. It is vital that those responsible for the handling of funds and management of assets are aware of this risk. This applies equally to public bodies and government-owned enterprises, as well as to privately run companies. In 2006, the National Audit Office issued the guidelines Indicators of Fraud, in which the term “fraud” is defined as “illegitimate actions for the goal of acquiring money or other valuables belonging to others”. The paper discusses several factors that are considered to cause increased risk of fraud and how such risks can be minimised. The National Audit Office believes there are special grounds for calling attention to these matters at the present time, and will bring increased attention to bear on these issues when performing audits on central government bodies. In addition, managers of central government bodies have been sent a letter where they are encouraged to familiarise themselves with the Office’s guidelines to gain knowledge of the factors that cause risk of fraud and the methods that may be used to counteract such increased risk.
THE NEW ACT ON AUDITORS AND ITS EFFECT ON THE NATIONAL AUDIT OFFICE

By Lárus Ögmundsson & Albert Ólafsson, directors at the National Audit Office

In the spring of 2008 the Althingi passed a new Act on Auditors No. 79/2008. The Act makes more stringent demands on auditors than was previously the case. The reason for the Bill is that the 8th Company Law Directive of the European Union, approved in May 2006, discusses the statutory auditing of annual accounts and consolidated accounts. It establishes certain minimum requirements for rules on auditing and auditors within the EEA. The main goal of the Directive is to harmonise working practices and to ensure the reliability of financial statements for the purpose of increasing trust in business transactions in the area.

Various provisions in the Directive are more stringent than the provisions of the previously effective Act on Auditors No. 18/1997 as regards, among other things, the monitoring of the activities of auditors, their independence, continuing education, etc. As a result, substantial changes to the previously effective Act were unavoidable. The new Act provides more detailed provisions on the duties of auditors, as well as on the requirements made for their independence. The main changes the new Act involves include:

- All auditors shall be subject to regular quality assurance.
- Mandatory membership of the Institute of State Authorised Public Accountants in Iceland.
- All auditors shall operate in accordance with a detailed code of ethics established by the Institute of State Authorised Public Accountants in Iceland. The code of ethics must be approved by the Minister.
- The Audit Commission shall hereafter be responsible for monitoring the registration of auditors and auditing firms, their continued education and regular quality assurance, and ensuring that auditors meet the requirements for certification.
- More stringent requirements are made than in the previously effective Act as regards independence, especially with respect to companies with connections to public interests.
- Increased requirements are made of continuing education for auditors.
- Stronger foundations are laid for the monitoring of auditors and their activities.

In the Act, the term “auditing” is defined as the “independent and systematic collection of data and assessment of such data for the purpose of issuing the reasoned and professional opinion of the auditor as regards their reliability and presentation in accordance with acts of law, established financial accounting rules or other conditions stated in the opinion”. The term “auditor” in the Act is limited to this task. The Directive on which the Act is based refers to “statutory auditors” in this respect. In doing so, it appears that the EU is indirectly admitting the existence of another type of auditing and auditors. The Act also states that persons or entities other than auditors and auditing firms may not use the terms “auditor” or “auditing” in their job titles or company names.

It should be noted that despite the narrow definition of the Act as regards the terms auditing and auditor, the Act acknowledges the existence of “internal auditing”, cf. Article 4, and that the job title “internal auditor” will continue to exist. The comments to the Bill that became the Act reveal that the reason for the exemption is that this job title is an established title and that corresponding titles are in use overseas. The job title is restricted to work on internal auditing in companies. Such internal auditing is provided for in many acts of law. Moreover, the comments state that the job title only carries meaning within the company in question and is not independent.

It is clear that the new Act applies to the aspect of the operation of the National Audit Office that is regarded as financial auditing in the traditional sense. The National Audit Act, on the other hand, provides for performance auditing, cf. Article 9 of the Act. After the entry into effect of the new Act on Auditors, this task can hardly be classified as auditing. The fifth paragraph of Article 4 of the Act states that a person may not convince another person that he/she is an auditor through “the use of a job title, firm name or by other misleading means”. The provision may mean that it is dangerous, all things being equal, to continue to use the term “performance auditing”. An effort will soon be made to find a new name for this task and other tasks undertaken by the Office. Once this has been done, amendments to the provisions of the National Audit Act will be unavoidable, in order to ensure accordance between that Act and the Act on Auditors.

Article 9 of the Act on Auditors contains a provision that auditors shall carry out their work in accordance with international accounting standards that have been adopted into Icelandic law. These standards have not yet been adopted into Icelandic law, although the National Audit Office is currently working on amendments to working procedures in financial auditing so that they meet the requirements set out by the standards.
**Public Reports 2008**

**Reports**

The Local Government’s Equalisation Fund and the Primary School. Performance Audit (January)

Keflavík Airport. Water Damages (February)

Keflavík Airport Development Corporation ehf. (KADECO). Performance Audit (March)


Sóltún Nursing Home. Examination of RAI-Registration and Payments for the Year 2006 (April)

Follow-ups on Performance Audits from 2004 (May)

Commissioner of Police for Sudurnes (May)

The Directorate of Labour Performance Audit (May)

Transport Infrastructure Projects. Performance Audit (June)

Audit of the Central Government Accounts 2007 (November)

The National Theatre of Iceland. Performance Audit (November)

**Other publications**

Annual Report of the National Audit Office 2007 (March)

Efficient and Effective Meetings. The Right Way to Hold a Meeting (February)
FINANCIAL STATEMENTS 2008

Report of the Management and Endorsement of the Financial Statements

The Icelandic National Audit Office operates under the auspices of the Icelandic Parliament according to Act No. 86/1997. Its principal role is to audit central government bodies, state enterprises and other entities responsible for operations on behalf of the Icelandic Government. The Office is also responsible for auditing companies which operations are guaranteed by the Government and companies in which the Treasury holds a share of at least 50%. The National Audit Office monitors the execution of the Government Budget and may conduct performance audits of state entities as authorized by the Legislature.

In the year 2008, the Office's operations generated a surplus of ISK 30.4 million. According to the Balance Sheet, the assets of the Office amounted to ISK 83.3 million, liabilities amounted to ISK 7.8 million, and equity amounted to ISK 75.4 million at year-end 2008.

The Auditor General and the Financial Manager certify the Financial Statements of the National Audit Office for the year 2008 with their signatures.

The Icelandic National Audit Office, 11 March 2009

Sveinn Arason, CPA
Auditor General

Eythor Borgthorsson
Financial Manager
To the Presidential Committee of the Icelandic Parliament


Management responsibility for the annual accounts
The management is responsible for the preparation and presentation of the annual accounts in accordance with the legislation on annual accounts and government financial reporting. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from all material misstatements. Management responsibility also includes applying appropriate accounting principles and estimates that are reasonable under the circumstances.

Auditor's responsibility
My responsibility is to express an opinion on this annual financial statement based on my audit. The audit was conducted according to accepted auditing practices and the provisions of the National Audit Act. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

The audit involves performing procedures to obtain audit evidence about the amounts and other information in the financial statements. The selection of audit procedures is based on the professional opinion of the auditor, including whether there is a risk that there may be material misstatements in the financial statement. The audit also includes evaluating the accounting principles and valuation rules applicable to Group A entities and used by management to prepare the financial statements, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Audit Opinion
In my opinion, the Financial Statements give a true and fair view of the operation of the National Audit Office in the year 2008, its Balance Sheet as of 31 December 2008 and change in cash during the year 2008, in accordance with laws and regulations and generally accepted accounting principles for Group A entities.

Gunnar Sigurdsson
Chartered Accountant
**Profit and Loss Account 2008 (ISK)**

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<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
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<tr>
<td><strong>Operating revenues</strong></td>
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<tr>
<td>Sale of services</td>
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<td>Other income</td>
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<td><strong>Total</strong></td>
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<td><strong>Operating expenses</strong></td>
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<td>Salaries and related expenses</td>
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<td>Administrative expenses</td>
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<td>14,912,317</td>
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<td>Meeting and travel cost</td>
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<td>Expert services</td>
<td>51,879,689</td>
<td>40,024,207</td>
</tr>
<tr>
<td>Operations of equipments</td>
<td>2,255,578</td>
<td>2,913,785</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>4,376,172</td>
<td>4,793,012</td>
</tr>
<tr>
<td>Housing</td>
<td>28,270,978</td>
<td>25,941,274</td>
</tr>
<tr>
<td>Operation of vehicles</td>
<td>291,524</td>
<td>531,269</td>
</tr>
<tr>
<td>Grants</td>
<td>1,923,600</td>
<td>583,600</td>
</tr>
<tr>
<td>Purchased assets</td>
<td>18,594,536</td>
<td>16,323,741</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>473,387,893</td>
<td>426,238,782</td>
</tr>
<tr>
<td><strong>Operating profit (-loss) before Treasury contribution</strong></td>
<td>(451,799,574)</td>
<td>(410,532,120)</td>
</tr>
<tr>
<td>Treasury Contribution</td>
<td>482,200,000</td>
<td>416,800,000</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>30,400,426</td>
<td>6,267,880</td>
</tr>
</tbody>
</table>
## Balance Sheet, 31. December 2008 (ISK)

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>80,304,870</td>
<td>56,606,358</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,876,556</td>
<td>2,346,320</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>79,923</td>
<td>222,246</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>83,261,349</td>
<td>59,174,924</td>
</tr>
</tbody>
</table>

### Equity and Liabilities

#### Equity

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at the beginning of the year</td>
<td>45,047,066</td>
<td>38,779,186</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>30,400,426</td>
<td>6,267,880</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>75,447,492</td>
<td>45,047,066</td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>7,813,857</td>
<td>14,127,858</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>7,813,857</td>
<td>14,127,858</td>
</tr>
</tbody>
</table>

### Total equity and liabilities

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>83,261,349</td>
<td>59,174,924</td>
</tr>
</tbody>
</table>
### Cash Flow Statement 2008 (ISK)

#### Cash flow from operations

<table>
<thead>
<tr>
<th>Source</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>30,400,426</td>
<td>6,267,880</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td><strong>30,400,426</strong></td>
<td><strong>6,267,880</strong></td>
</tr>
<tr>
<td>Accounts receivable, decrease / (increase)</td>
<td>(530,236)</td>
<td>6,315,880</td>
</tr>
<tr>
<td>Accounts payable, (decrease) / increase</td>
<td>(6,314,001)</td>
<td>6,113,107</td>
</tr>
<tr>
<td><strong>Changes in current assets and liabilities</strong></td>
<td><strong>6,844,237</strong></td>
<td><strong>12,428,987</strong></td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>23,556,189</strong></td>
<td><strong>18,696,867</strong></td>
</tr>
</tbody>
</table>

#### Cash flow from financial activities

<table>
<thead>
<tr>
<th>Source</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury contribution</td>
<td>(482,200,000)</td>
<td>(416,800,000)</td>
</tr>
<tr>
<td>Received from the Treasury</td>
<td>458,501,488</td>
<td>398,014,358</td>
</tr>
<tr>
<td><strong>Net cash from financing activity</strong></td>
<td><strong>23,698,512</strong></td>
<td><strong>18,785,642</strong></td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>(142,323)</td>
<td>(88,775)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of the year</strong></td>
<td>222,246</td>
<td>311,021</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>79,923</td>
<td>222,246</td>
</tr>
</tbody>
</table>
Accounting Policy

Basis for the Financial Statements

According to the Government Financial Reporting Act, Group A entities shall not capitalise fixed assets, but charge them as expenses at the year of purchase. They shall generally not engage in long-term borrowing and may not undertake long-term obligations unless authorised by the Government Budget.

Tax
Central government bodies and enterprises generally do not pay income tax.

Recording of Revenue
The Office's revenue is recorded in the month in which invoices are issued.

Recording of Expenses
Expenses are generally entered when invoices are received by the Office.

Operating Divisions
The Office's operations are divided into areas of responsibility appropriate to its organisation.

Accounts receivable
Accounts receivable are entered at nominal value in addition to incurred interests where relevant.

Cash and Cash Equivalents
The Office keeps no funds but has a bank account.

Pension Liabilities
The Office has accrued pension liabilities for its present and past employees. In accordance with the accounting principles of Group A of the Treasury, pension liabilities are not recorded in the annual accounts of individual Group A entities, but are recorded as one whole at the Treasury.

Accounts Payable
Accounts Payable are entered at nominal value in addition to incurred interests where relevant.

Accounting and Payment Functions
The State Accounting Office handles payroll matters, accounting and payment services for the Office.

Budget and Operations
The Office's budget for 2008 anticipated similar activities as in the previous year. Initially, the Office's budget was ISK 468.8 million. Budget appropriations amounting to ISK 13.4 million were transferred due to the price level restatement of wages. Thus in 2008, the Office's total budget amounted to ISK
Notes

Operating expenses less sale of services totalled ISK 451.8 million and were ISK 30.4 million less than budget. Operating expenses are specified as follows:

<table>
<thead>
<tr>
<th>In ISK thousand</th>
<th>Initial</th>
<th>Total budget</th>
<th>Financial Statements</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of services .......................</td>
<td>(27,700)</td>
<td>(27,700)</td>
<td>(40,183)</td>
<td>12,483</td>
</tr>
<tr>
<td>Salary and salary-related expenses .....</td>
<td>381,600</td>
<td>395,000</td>
<td>357,480</td>
<td>37,520</td>
</tr>
<tr>
<td>Other operating expenses ...............</td>
<td>110,400</td>
<td>110,400</td>
<td>113,985</td>
<td>(3,585)</td>
</tr>
<tr>
<td>Transfers ..................................</td>
<td>0</td>
<td>0</td>
<td>1,924</td>
<td>(1,924)</td>
</tr>
<tr>
<td></td>
<td>464,300</td>
<td>477,700</td>
<td>433,205</td>
<td>44,495</td>
</tr>
<tr>
<td>Purchased assets ........................</td>
<td>4,500</td>
<td>4,500</td>
<td>18,595</td>
<td>(14,095)</td>
</tr>
<tr>
<td></td>
<td>468,800</td>
<td>482,200</td>
<td>451,800</td>
<td>30,400</td>
</tr>
</tbody>
</table>

Break-down in ISK thousand by type:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of services ........</td>
<td>(40,183)</td>
<td>(32,030)</td>
</tr>
<tr>
<td>101 Icelandic National Audit Office</td>
<td>473,388</td>
<td>426,239</td>
</tr>
<tr>
<td>601 Equipment ...........</td>
<td>18,595</td>
<td>16,324</td>
</tr>
<tr>
<td></td>
<td>451,800</td>
<td>410,532</td>
</tr>
</tbody>
</table>

ICELANDIC NATIONAL AUDIT OFFICE