

ANNUAL REPORT 2004



RÍKISENDURSKOÐUN
ICELANDIC NATIONAL AUDIT OFFICE

Icelandic National Audit Office

Annual Report 2004



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Editor: Thorir Oskarsson
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Thorir Oskarsson
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Introduction

SIGURDUR THORDARSON, AUDITOR GENERAL

THIS ANNUAL REPORT is the twelfth one of my term as Auditor General, a period that has witnessed wide-ranging changes in the operating environment of public bodies. Their activities have shifted in focus and become more complex and specialised. Views on public bodies and their role have also changed substantially, with ever-increasing demands for responsibility, transparency and effective operations.

The ever-changing environment of public services requires constant reviewing of the organisational structure of public agencies and enterprises as well as their staff's know-how and capabilities. Therefore, many public bodies have in the past few years adopted various new management practices and stepped up performance measurements. The key to any organisation's success is its human resources. In this respect, central government bodies are on solid ground. In order to maintain and strengthen this position, the State as an employer has contributed handsomely to the retraining and lifelong learning of its workforce. Thus, it has successfully kept up with trends in this area, adapted new methods and met requirements for modern services. In some service areas, central government has, in fact, pioneered new methods, for example in electronic commerce.

During the past few years, the State has increasingly contracted with private companies for the supply of various statutory services. In such cases, the State assumes the role of the buyer and selects the prospective service provider on a market basis, primarily by comparing prices and quality. In such assignment of responsibilities, it is important to ensure that the funds budgeted for the service deliver a full return in the form of the intended service levels, as if performed by central government. Leaving contractors to independently decide how

public funds are divided between their profit margins and providing services is to be avoided. Therefore, it is important for service contracts to clearly specify the service to be provided, its scope, quantity and quality as well as the contractor's facilities, professional capabilities and financial capacity. In addition, the buyer's surveillance needs to be very active.

Notwithstanding the triple division of power, the Icelandic parliament, the Althing, is Iceland's most powerful institution. Its power is drawn from its legislative and budgetary authority as well as traditional Icelandic parliamentarianism. In addition, the Althing is intended to supervise the activities of the executive branch. To this end, regulatory bodies, including the Althing Ombudsman and the National Audit Office, operate under the Althing's auspices. The role of the Althing Ombudsman is to monitor central and local government administration and safeguard the rights of citizens vis-à-vis the government authorities. Similarly, the National Audit Office is intended to regulate the implementation of the Government Budget, particularly public bodies' use of their respective budgets, their finances and accounting, as well as auditing their accounts.

The President of Iceland and the Government together form the highest governing authority in all political affairs of State. One of the Government's main roles is to implement

the legislature's instructions. Owing to the nature of the matter, the Government at any given time is also one of the chief sources of legislation. It spearheads the formulation of various projects and action plans and holds a central governing authority over public administration and various administrative measures aiming to serve a wide range of citizens' and State needs.

Due to the close collaboration of the legislature and the Government, it is very important to define the role of each party as clearly as possible. The same applies to the areas of responsibility of senior officials and managers of public bodies. With the decentralisation of power, demands for clear delimitation of top officials' responsibilities have increased significantly. Clear rules on the division of decision-making powers and responsibilities are, in my view, a key aspect of effective public administration.

The governments of many other countries have issued guidelines on the roles and responsibilities of top officials. In addition, special codes of conduct are often adopted for civil servants. In my opinion, there is a full need for the central government authorities to define in more detail and clarify what the responsibilities of top government executives and officials effectively include. Similarly, structured discussion must be initiated on the value and need for a code of conduct for public administration. The Althing should initiate such a discussion.

A key aspect of all of the National Audit Office's work is to ensure the credibility and objectivity of the data on which it bases its assessments and of the information it supplies. Therefore, improving the procedures of staff and increasing their expertise and capabilities is an ongoing process. In the present report, five employees of the Office

present procedures in and approaches to various tasks.

The National Audit Office's performance in 2004 was on target in all main respects. Its output was clearly lower than in 2003 owing to a tighter budget. Active audit hours dropped by 6% from the previous year, as a result of which the number of certified financial statements and audit reports fell by 4.3%, and public reports by two.

The Office achieved a budget surplus of ISK 16.5 million for the year 2004, ISK 15 million of which derived from a special appropriation to offset the deficit from 2003. This year's result was thus ISK 1.5 million within budget. Total expenditure amounted to ISK 339 million, which is ISK 10 million less than in 2003, not counting that year's costs of modifying the Office's facilities, which amounted to ISK 18 million. The real decrease in expenditure, taking the scope of activities in 2003 into account, is 7.5%, or ISK 28 million. At year-start 2004, various cost-cutting measures were taken. As a result, payroll costs in ISK amounts remained unchanged between years, while other operating expenses fell by approximately ISK 5 million. Through prudent stewardship, the Office thus managed to shape its operations to fit its 2004 budget as planned.

As mentioned above, the past few decades have seen much change in public administration and the operating environment of central government, with ever-higher demands made on public services and their efficiency. However, the same period has inspired within me admiration for the professionalism and dedication of civil servants to ensuring first-rate services to the Icelandic people. This aspect has a habit of being overlooked in discussion about public service and civil servants.

Parliamentary watchdog

THE ICELANDIC NATIONAL AUDIT OFFICE is an independent body operating under the auspices of Iceland's parliament, the Althing, under Act No. 86/1997. It has two main responsibilities: financial and performance audit.

The role of the National Audit Office is, first, to certify that central government accounts accurately represent operations and finances in accordance with generally accepted accounting principles, inspect the internal control of government agencies and enterprises and assess whether such control ensures adequate performance. Second, the Office has charge of monitoring public spending, i.e. whether government bodies ensure economy and efficiency in their activities and comply with applicable legal requirements in this respect. The Office also provides parliamentary committees and central government bodies with various advice and guidance, including the drafting of Government Budgets.

The National Audit Act clearly stipulates that the Office is independent in carrying out its duties and that its staff shall be completely independent of the ministries and other bodies under audit. The Office also decides where and when to perform audits. However, the Presidential Committee of the Althing may, either on its own initiative or in accordance with requests by Members of Parliament, call for reports from the Office on any specific matters falling under the Office's mandate. In such cases, the Office decides how to prepare and write the report. The Presidential Committee also hires the head of the Office, the Auditor General, for a term of six years. However, the Auditor General recruits other staff.

Under law, the Office may call for financial statements from organisations, associations,

funds and other bodies that receive Government funds or guarantees. Furthermore, the Office is permitted access to original documents or 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. It may also request reports on the use of grants and other public money.

The Office accounts for most of its projects in reports or opinions. These are, as a rule, sent to the audited bodies and the ministries under which they belong. Some reports are also made public and sent to the Althing. This applies in particular to performance audit reports and the Office's yearly report on its audit of the Central Government Accounts. The delivery of its reports normally marks the conclusion of its work on the project in question. In some cases, however, the Office monitors the reactions of the audited party to its comments. This may lead to a new audit.

A large part of the Office's audit work is statutory. In other respects, it decides and organises its projects based on its own assessment of importance and risk. The Office bases its work on both Icelandic law and international auditing standards, which are intended to ensure sound procedures in the auditing of public bodies. In addition, it has established a Code of Conduct for its staff based on the Code of Ethics of the International Organisation of Supreme Audit Institutions. The key focus points of the Code of Conduct include: credibility, independence, integrity and professionalism.

Operations in 2004

THE ICELANDIC NATIONAL AUDIT OFFICE'S operations contracted in 2004. The number of man-years was reduced by two, and output shrunk correspondingly. The Office kept within budget by 1%.

Activities and output

During 2004, the staff of the National Audit Office delivered a total of 71,856 active man-hours in connection with audit work, compared with 76,440 hours in 2003 and 66,272 hours in 2002. This represents a drop in hours of 4,584 (6%) from 2003, which corresponds to over two man-years. In order to perform its statutory duties, the Office bought in professional services from 14 audit firms, corresponding to 4,057 hours worked, compared with 4,052 hours in 2003.

Looking at active hours spent on audits in 2004, most time was spent on financial audits and internal control, or 63%. Approximately 21% of the time was spent on performance audits, about 5% on audits of information systems, about 8% on legal and environmental projects and about 3% on other projects. These ratios continue the trend of the past few years. However, the ratio of financial audit work increased considerably at the cost of performance audit work and other projects.

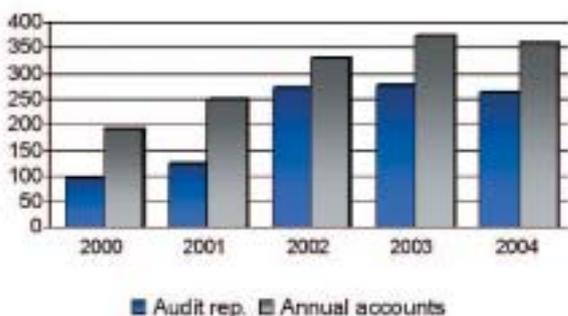
Due to a lower work contribution by staff in

2004 than in 2003, the Office's output fell somewhat. The Office certified a total of 357 annual accounts and produced 259 audit reports in 2004, down from 370 annual accounts and 274 audit reports in 2003. This represents a 4.3% contraction.

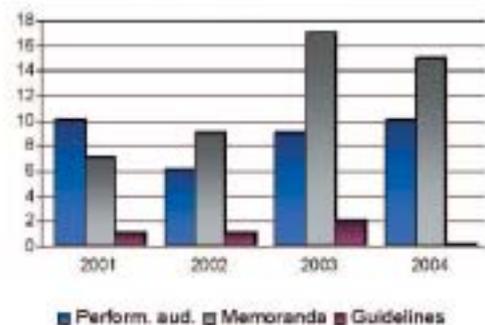
In addition to certifying that financial statements present the audited body's operations and financial position fairly and accurately, annual accounts report the manner in which budgetary appropriations from the Althing, laid down in the Government Budget, are spent, as well as public bodies' scope of activities and performance. The results of this work by the Office were published in its report *Audit of the Central Government Accounts 2003*. This report also contains the results of the Office's review of a number of aspects of the operations of agencies and enterprises.

In addition to the *Audit of the Central Government Accounts 2003*, the Office produced 10 public reports in 2004, compared with 12 in 2003. These reports are fairly extensive in scope. Most of them are

Number of audit reports and certified accounts



Number of publications and memoranda



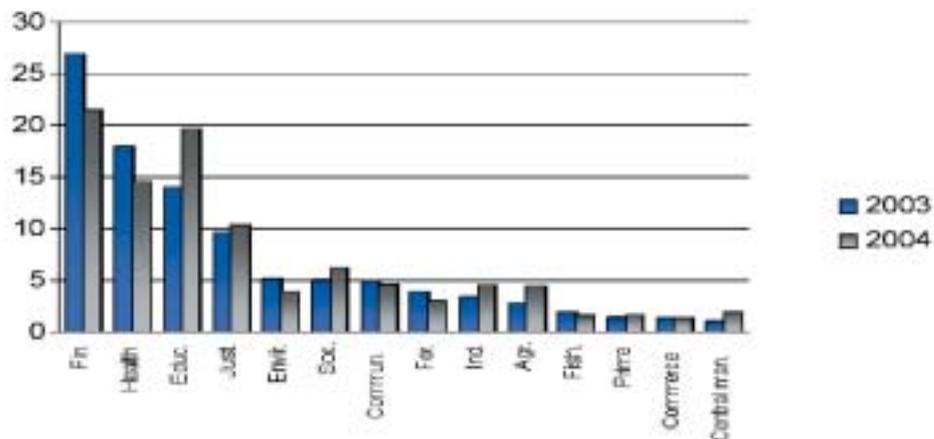
performance audit reports, while two deal with environmental audits. Individual bodies, such as the Höfdi Residential Care Home for the Elderly, the FSA University Hospital in Akureyri and the Icelandic Institute of Natural History, were reviewed, accounting for general aspects, such as pharmaceutical costs in Iceland, university education, afforestation and supplemental compensation to government employees.

Five extensive reports on internal control were completed during the year: on the Technological Institute, the State Alcohol and Tobacco Monopoly, Statistics Iceland, the Public Roads Administration and the General Pension Fund. In 2003, four such reports were produced. Like the Office's reports on financial audits, its internal control reports are not made public, as they often deal with sensitive internal issues of the audited body. The same applies to memoranda on various matters relating to government bodies or operations.

In 2004, the Office spent a total of 56,729 hours on auditing individual ministries and their bodies, compared with 59,948 hours in 2003 and 53,332 hours in 2002. Most time was used on auditing the budgets of the Ministry of Finance (21.5%), the Ministry of Education (19.7%), the Ministry of Health and Social Security (14.6%) and the Ministry of Justice (10.4%).

As shown by the bar chart below, there was some transfer of hours between ministries from the year 2003. The main increase in hours was in auditing the budgets of the Ministry of Education, the Ministry of Agriculture and the Ministry of Industry, explained by, among other things, the nature of administrative projects carried out during the year. Hours spent on auditing the budgets of the Ministry of Finance, the Ministry of Health and Social Security and the Ministry for the Environment, on the other hand, dropped in number.

Division by ministries of hours worked



New focus in choice of projects

The National Audit Office's financial and performance audits have until now focused mostly on public bodies and government activities, and less on other parties receiving public funds for specific projects or to perform statutory duties.

In the past few years, the government authorities have increasingly entrusted non-State parties with various statutory services, a policy that will continue to be pursued in the future. Thus, the Office's procedures for reviewing the reliability of financial informa-

tion and the use of public money will clearly change.

The Office's role in this field is, first, to monitor whether service providers fulfil their agreements with the State and, second, to assess whether the parties entitled to the statutory services in question receive them. Thus, the Office has certain responsibilities regarding public service agreements, and its access to them is ensured in both the National Audit Act and the agreements themselves.

In its performance audits, the Office has sometimes assessed how successful the provision of such services has been. In order to be able to assess what has actually been achieved with the public money in question and whether the service's implementation and quality are satisfactory, data needs to be collected from the service's recipients. They could be described as a new target group in relation to the Office's regulation.

Staff

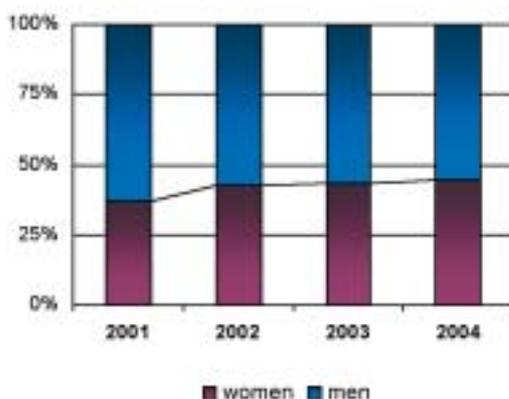
On 31 December 2004, the National Audit Office's permanent employees totalled 49, down from 51 in the preceding year. Two employees retired in 2004, and were not replaced by new recruits. A number of employees had less than a 100% appointment. The number of man-years was thus lower than indicated by the number of staff, or 46, compared with 48 in 2003.

Of permanent staff, 27 (55%) were men and 22 (45%) were women. As shown by the figure below, the ratio of women to men among staff has risen during the past few years. For comparison, women were 37% of staff in 2001. The average age of staff was

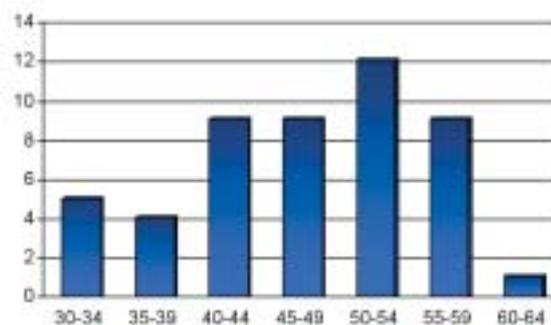
47.5 years, and the largest single age group, consisting of 12 employees, was 50-54 years.

The Office is committed to hiring well-educated staff, and its percentage of employees with a university degree has stayed close to 80% in the past few years. A total of 38 employees now have a university degree. Most, or 26, held a degree in business administration, 5 were certified accountants and there were 4 lawyers, 2 with a master's degree in public administration, 1 economist and 1 expert in the Icelandic language. The average length of service of permanent employees is 10.7 years, and the percentage of staff with three years' professional experience or longer is 78.7%.

Gender ratio of staff



Age distribution of staff



Finances and expenditure

The National Audit Office's budgetary appropriation under the 2004 Government Budget and Supplementary Budgets totalled ISK 319 million, an increase of 12.3% from the preceding year. This amount includes ISK 15 million to offset the Office's deficit at year-end 2003. Total expenditure net of user fees, on the other hand, was upwards of ISK 302 million, down by 8% from 2003. Thus, the Office kept within budget by ISK 16.5 million. The cost-restraint measures taken at year-start 2004 delivered the intended results, although holding back the Office's activities and output.

As shown by the summary profit and loss account below, the Office's payroll costs repeated the 2003 figure, while operating expenses and the cost of purchased assets fell by ISK 28 million, as the Office has completed most of the extensive renovation of its facilities. The largest single operating

cost item is bought-in expert services from 14 audit firms for ISK 29.7 million. This is a similar outcome to the 2003 figure. User fees, on the other hand, were ISK 3 million lower than in 2003. Overall, the Office's expenses fell by ISK 26 million.

According to its job-order costing records, the costs incurred by the Office's individual operating divisions were as follows: The operations of Financial Audit Divisions I-III cost ISK 176.3 million, i.e. 58.3% of the Office's expenses, the operation of the Performance Audit Division and the IT Division cost ISK 79.4 million (26.3%), the operation of the Legal and Environmental Division ISK 21 million (7%) and central management ISK 25.6 million (8.5%). This repeats the ratios of the past few years. Total costs per each full-time equivalent position were ISK 6.6 million, compared with ISK 6.7 million in 2003.

Profit and loss account in ISK millions

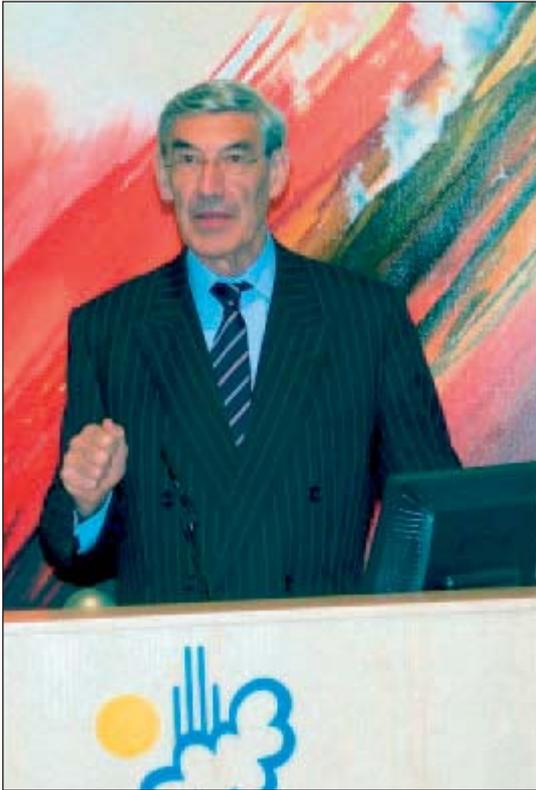
Items	Year		Deviations	
	2004	2003	Amount	%
Compensation	259	259	0	0
Other operating expenses	80	85	-5	-6
Purchased assets	0	23	-23	-100
Total costs	339	367	-28	-8
User fees	37	40	3	-7,5
Costs net of user fees	302	327	-25	-8,0
State contribution	319	284	35	12,3
Surplus (deficit)	16.5	-43	59.5	

International relations

As customary, the National Audit Office took part in various international co-operation in 2004, although to a lesser extent than in 2003. A substantial part of this work centred on auditing the Council of Europe in Strasbourg, the European Free Trade Association (EFTA) and the European Organisation of

Supreme Audit Institutions (EUROSAI).

In addition to this work, the Office's representatives attended conferences and meetings of various international associations of which it is a member. This included the INTOSAI 2004 Congress in Budapest,



Hungary, and the annual INTOSAI Working Group on Environmental Auditing Assembly Meeting in Brazil. In addition, Nordic Auditors General held their annual meeting in Ribe in Denmark, and the staff of their respective institutions held a number of seminars, the themes of which included performance audit, information sharing, retraining and human resources management. One Nordic seminar was held in

Iceland. One of the Office's employees spent three weeks at the UK National Audit Office studying performance audit and reporting methods.

Highlights from events hosted in Iceland in 2004 include the visit of Auditors General from three neighbouring countries, the UK, Denmark and Norway, in mid-September. The main occasion for this visit was a morning seminar on the management of public agencies and improvements in public administration in the UK, held on 16 September by the Icelandic Association of Directors of Public Bodies, the National Audit Office and the Institute for Governance and Politics. The Comptroller and Auditor General of the UK National Audit Office, Sir John Bourn, gave two lectures.

There is no doubt that international relations are extremely important for the Office to acquaint itself with the most up-to-date methods and compare itself against other equivalent institutions. In this context, it is worth noting that the Nordic Supreme Audit Institutions have for two years been developing indicators for their performance. Furthermore, globalisation and the substantially increased role of international organisations and agreements have intensified the need for international consultation and co-operation in auditing.

Methods and approaches

THE NATIONAL AUDIT OFFICE'S ACTIVITIES span all areas of government operations and finances. As a result, our staff use a wide array of methods in their day-to-day work. They are nevertheless expected to follow a defined set of procedures intended to ensure the quality of projects undertaken.

The National Audit Office's standard operating procedures place a strong emphasis on using professional methods in audit work and the writing of audit reports. To this end, our staff need to acquire theoretical knowledge of public auditing techniques as well as the skills to use them. In addition, they need to possess extensive knowledge of laws and regulations on public-sector activities, the organisation of public finances and the structure of individual public bodies.

Our staff base their work partly on public auditing guidelines, which are based on international auditing standards. In many cases, however, the nature of the project calls for other methods. This applies not least to performance audits. Reliable and credible

processing and presentation of data are also of key importance in the Office's work. Much weight is given to independence and objectivity vis-à-vis the party under audit as well as the possibility to assess and validate the auditing. Finally, the Office finds it important for reports and opinions to be written in plain and intelligible language for the subject matter to be clearly expressed.

To give an insight into the Office's activities, five staff members were asked to write short pieces on some of their views and methods that shape their day-to-day work. The pieces discuss the Office's handbooks and standards, performance audit techniques, data analysis, electronic surveys and the language used in government.



The advantages of the Office's handbooks

GRETAR BJARNI GUDJONSSON, PRINCIPAL AUDITOR

THE HANDBOOKS AND STANDARDS of the National Audit Office are important tools in its audit work, not least as ever more stringent and extensive demands are made for professional and suitable methods in order to ensure quality. Therefore, it is very important for those engaged in auditing to receive clear and consistent information on standard procedures.



Public bodies vary in nature, and are subject to a wide range of legal provisions. Accordingly, our staff have various backgrounds, whether looking at their education or experience. The Office's handbooks are intended to ensure consistency by defining a set of procedures and methods. They also help staff to choose well-suited methods, define technical aspects and identify the applicable rules in each case. Thus, they can save considerable time. Our handbooks are also an inexpensive form of professional training. Their messages are clear, accessible and independent of the task to be carried out.

The handbooks are divided into three main sections. All of them are accessible on the Office's intranet, and two of them can be accessed on its external website. Staff can thus connect on-line to them from almost

anywhere. Thus, the handbooks are always there when needed.

Their instructions are either detailed and specific or general. Examples of general instructions include the Auditing Standards of the International Organisation of Supreme Audit Institutions (INTOSAI), which contain carefully crafted general rules. Reference can be made to them to, for instance, substantiate certain conclusions in an audit letter or audit report.

The handbooks' first section deals with the Office's internal audit rules and procedures and explains auditing practices in particular, in addition to providing samples of papers commonly used in financial auditing. They also provide templates for audit plans in a word-processing form that can be easily transferred to spreadsheets and adjusted to the project being worked on. This part is only accessible to the Office's staff.

Auditing of compliance with laws and regulations is very often a neglected aspect of financial auditing, but is particularly important in the Office's work. The National Audit Act No. 86/1997 stipulates checking that the accounts of public bodies conform to legal requirements and procedures. The handbooks' second section discusses the

legal requirements of laws and regulations as well as other instructions of the executive branch, such as ministries and the State Accounting Office. Examples of important laws include the Government Financial Reporting Act, which governs the accounting of public entities.

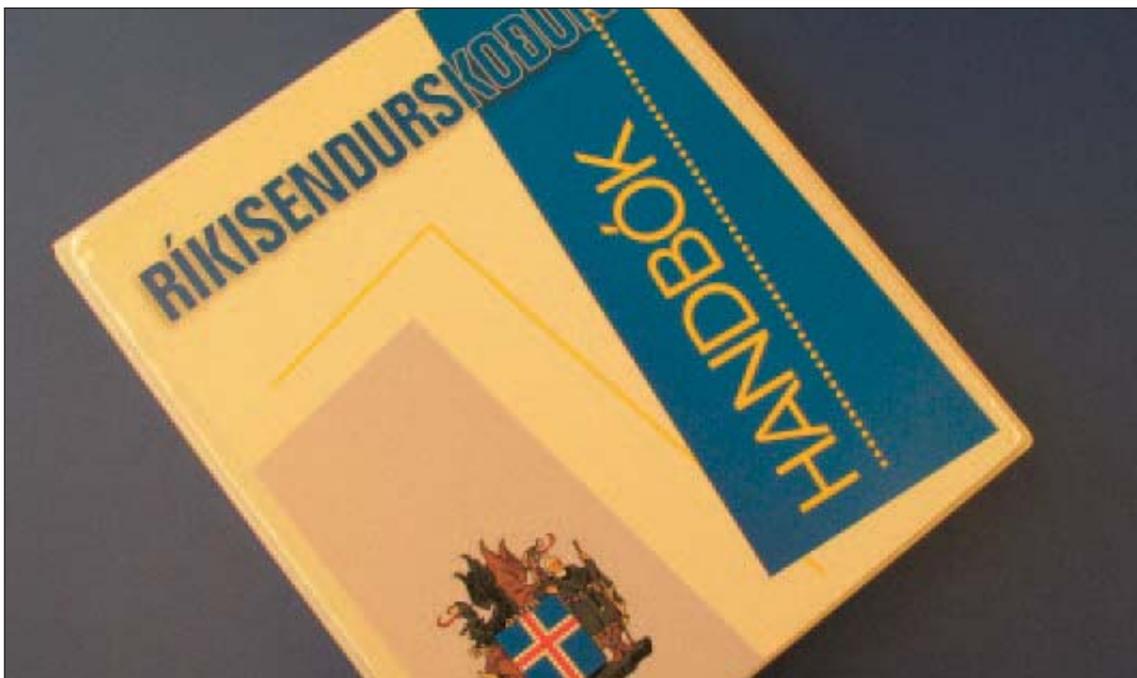
The third section of the handbooks also stresses the necessity of monitoring compliance with laws and regulations in public auditing. It contains, among other things, the INTOSAI Auditing Standards, which include important rules and specify international best practice in public-sector auditing, as jointly defined by Supreme Audit Institutions (SAIs).

These Standards include the following clause: "The audit procedure normally results, in the absence of irregularity, in the granting of a 'discharge'." In other words, if the audit's finding is that applicable laws and regulations have been complied with, this provides an indirect verification that the executive authority's actions are consistent with the legislature's instructions. Thus,

national legislative assemblies and other readers of audit reports receive a confirmation of the scope and development of central government's financial obligations.

One example of how the handbooks come to good use in audit work is the preparation of audit plans. The INTOSAI Auditing Standards contain general instructions for such plans. These include that audit plans shall be made in order to ensure audit quality. The Standards also provide that the audit objectives and the tests necessary to meet them shall be specified, and that the SAI in question "should give priority to any audit tasks which must be undertaken by law and assess priorities for discretionary areas within the SAI's mandate." Handbook 1 also contains work papers for auditing instructions on defining the goals of the audit in closer detail.

This short description should demonstrate the many ways in which the Office's handbooks come in handy in our audit work. They are an important quality-assurance tool in auditing public agencies and enterprises.



Performance audit methods

STEINUNN HALLDORSDDOTTIR, SENIOR AUDITOR

THE NATIONAL AUDIT OFFICE'S PERFORMANCE AUDITS vary substantially in subject matter, which calls for a wide range of analytical techniques. These can be divided roughly into quantitative and qualitative methods. In order to illustrate the Office's procedures in this area, an account is given here of one of its projects during the winter 2004-2005: an audit of services to the elderly.



In the past few years, the Office's performance audit work has undergone various changes. Previously, attention centred mainly on specific public bodies, their operations, efficiency and effectiveness. One example is an audit of the Reykjavík Commissioner of Police in 1998. Such audits are still carried out, but attention is increasingly shifting to comparing the operations and effectiveness of the bodies under audit to equivalent bodies in Iceland or overseas. This is exemplified by audits of the FSA University Hospital in Akureyri and the Höfði Residential Care Home for the Elderly in Akranes in 2004.

An ever-rising number of audits now include reporting of the overall implementation of a given subject area, the activities of many similar organisations or assessment of the effectiveness of a particular implementation or change. Recent examples include audits of

pharmaceutical costs in Iceland, supplemental compensation at the ten largest central government bodies, the implementation of performance management in government bodies and the merger of the Reykjavík hospitals.

In the audit discussed here, services offered to people older than 67 years and mostly funded with public money were analysed. Such services are provided at nursing homes and day-care centres as well as in home nursery care, which is the responsibility of the State, and social home-care services, for which local authorities are responsible. An effort was also made to examine, in particular, the operations and performance of nursing homes. Finally, an attempt was made to ascertain whether all elderly people had access to the same services, regardless of the region in which they lived.

Obviously, such an extensive audit required considerable data collection. Therefore, it became clear already during the pilot study that standard information would need to be requested from numerous parties in order to provide an overview of the state of affairs. A quantitative approach was found most suitable, i.e. a method enabling generalisation based on the sample taken. In this case, the population, i.e. the aggregation of parties from which samples were drawn, consisted of all nursing homes, day care, all health establishments providing long-term in-patient

care and all establishments separately offering day care. In addition, all 43 service groups of elderly people in Iceland had to be included. This added up to a total of 131 parties. Right from the outset, the decision was made not to take samples as such, but to send questionnaires to all of the parties in question, with each group receiving a separate, tailored list of questions.

One example of the indicators used was the quantity of service provided by the nursing homes. This included calculation of the time devoted to the care of each elderly resident in the form of nursing hours per 24 hours supplied by nurses, paramedics and unskilled staff. Thus, the services provided by the nursing homes could be compared internally.

Another indicator for the quantity of service is assistance to the elderly in the form of social home-care services, which was measured in hours per week for each individual. These data were categorised by geographical area in order to probe for any regional differences. Similarly, an effort was made to measure the quantity of home nursing care by examining how much service each person received in hours per week.

In the audit, a qualitative method was also applied in the form of interviews with many experts on services to the elderly, including the heads and other management of nursing homes, members of the Co-operation Committee on Elderly Persons, senior staff in the field of home nursing and other experts. Not to be forgotten was the valuable assistance and data provided by the staff of Statistics Iceland, the Ministry of Health and Social Security and the Ministry of Social Affairs. In this way, an effort was made to verify the information gathered through the quantitative research.

Third, comparison was made with other countries in one part of the audit, i.e. the part focusing on services to elderly people living at home. Comparison was made with data from Nordic databases on the quantity of service and number of service recipients.

The Office places strong emphasis on the quality of its reports and on presenting the views of all stakeholders. To this end, such parties are given the chance to read the reports' drafts and make substantive comments.



Data analysis

ALBERT OLAFSSON, HEAD OF IT AUDIT UNIT, CISA

AUDITS OFTEN START by checking whether appropriate internal controls are in place. If internal controls are found lacking, a deeper analysis is required.



Audits sometimes require analysis of a large collection of electronic data. Either a statistically significant sample is taken to draw a conclusion about the whole, or the entire data collection is examined. The latter option is used when, for example, flaws have been discovered in internal controls or a serious error has occurred in IT systems, rendering the data unreliable. In the past, examining a large database was very difficult and time-consuming, as tens of thousands of entries often had to be analysed. Now, such a database can be examined relatively simply and quickly with appropriate software.

The solutions used for data analysis in auditing include Audit Command Language (ACL), which the Office has used since 1990 in various tasks requiring analysis of extensive sets of electronic data. This solution, which enables high speeds and levels of reliability, was originally conceived for auditing, but has since been used in other areas in which financial data from different

financial accounting systems need to be analysed. As indicated by its name, ACL was originally a programming language, similar to dBASE, but it also featured many built-in commands tailored to auditing needs. Over the years, ACL has developed into a menu-driven program, as is common for Windows applications, in which selecting any function is simple, although the original command language still forms its basis.

Defining data for the system requires some knowledge of their structure and form, whether obtained from databases or simple text files. When the data have been entered in ACL, however, running analyses generally regarded as useful in auditing is easy. This includes aging of entries, selecting samples for further study, variance analysis of lowest and highest values and checking data variance, gaps in number sequences and duplicated entries.

All actions are entered automatically in an activity log with the results of checks. The log can be reproduced, and a macro can be created from its data for use if an audit of the same entity needs to be repeated, or the same type of audit needs to be carried out on another audit entity. Thus, comparable audit functions are used to ensure a consistent level of audit quality between different audits.

In audits data from different financial systems are often used. Those performing such work therefore need to either familiarise themselves very thoroughly with the financial accounting software used by the party under

audit or to analyse the data in their own systems. Learning to operate many different accounting systems with various different reporting functions often requires substantial learning. However, the Office has been very lucky in this respect, as for the past few years most government agencies and enterprises have been using the same accounting system, i.e. the *Government Accounting and Planning System*. On the other hand, the diversity of such solutions has increased in the past few years, and now the Office's staff must deal with a greater variety of systems in their work, with numerous sub-systems.

In the ACL solution, data are analysed and audited through a single user interface. This frees the auditor from having to know the intricacies of the reporting modules of disparate financial accounting systems used. The auditor simply extracts transactional entries or balance figures from the accounting systems and analyses them in ACL or an equivalent software solution.

However, there has been little need for the Office to use this procedure, due to its clients' homogeneous range of systems. Therefore, ACL has been used only in large and complex

data-processing projects, e.g. when calculations of certain figures under audit need to be validated. In other cases, the Office's staff have opted for learning in detail how to operate the few accounting systems in use, drawn on their internal reporting features and transferred data to Excel for closer analysis.

It is worth noting that more software applications exist that can perform similar tasks as ACL and have equivalent features. One of them is IDEA, which was originally developed partly by staff members of the Office of the Auditor General of Canada. The Canadian Institute of Chartered Accountants then took over the software's development, which is now in the hands of a software company specialised in this field. ACL and IDEA are commonly used by Supreme Audit Institutions worldwide. Many also use add-ons for MS Excel, which enable various commands simulating ACL or IDEA functions. However, this is unsuitable when using very large data files. Also worth noting is that there is a wide range of reporting applications on the market offering various possibilities, although not tailored to audit needs like the aforementioned solutions.



Electronic surveys

SOFFIA WAAG ARNADOTTIR, SENIOR AUDITOR

RENEWED FOCUS in central government has raised interest in public management substantially. Attitude surveys within public bodies in relation to performance audits can provide important information, for example in strategy formulation and planning.



The National Audit Office's Performance Audit Division has the main role of monitoring how public agencies and enterprises use public funds and assessing their success at discharging their statutory duties and achieving their goals. Such audits have been based primarily on conventional methodologies, such as general data collection and processing. However, even with access to such data, gaining an accurate view of problems in management and organisational structure can be difficult. Therefore, the Office started in 2001 to conduct electronic surveys among public bodies' staff and taking the results into account in general performance audits.

The system

A staff member of the Office designed a system for carrying out such surveys while maintaining full confidentiality to all participants, including with respect to their identity. All communications are carefully encoded,

and data from the survey is transmitted directly into the Office's closed database.

The survey is conducted by delivering to each participant a closed envelope containing a code of numbers and letters used as a password to the survey. Codes are assigned to each employee completely randomly, and the survey can be answered from any on-line computer. Only the website address (URL) of the survey needs to be entered for a window to appear in which to type the code.

The numerical system ensures that each participant can answer the survey only once and that the answers cannot be traced to the user. The numbers are destroyed as soon as they are received by the Office's database, and if the code is lost the user is blocked from taking part in the survey.

Thus, the Office endeavours to ensure complete anonymity. Response rates have been very high. In the surveys already carried out, the response rate has ranged between 80% and 90%. This is an excellent result, and adds reliability to the surveys.

Implementation

When the decision has been made to conduct an attitude survey in an organisation, the Office has followed the procedure of calling a staff meeting to present the survey, the reasons behind it and its value for management and, not least, the employees themselves. The staff then receive an information

sheet and a closed envelope containing the code. The procedure of having the Office's staff present the survey and its system has been well received, and without doubt conducive to the high response rate.

The questionnaire

Conventional questionnaires used in the Office's attitude surveys have been divided into five main sections: information sharing, responsibilities and role, management, finances and employee relations/satisfaction. In so doing, substantial information about the organisation in general is collected.

The Office has processed the results of its surveys in a statistical software program that enables complex data processing. In effect, however, very simple statistics are used, and the results are published in an accessible and clear-cut manner. Not many fixed variables have been used, such as gender, age or division into departments, owing both to the small size of the organisations and in order to ensure anonymity and non-traceability.

Results: Then what?

When the results of the attitude survey are available, they are first presented to the head of the organisation, and then the standard procedure has been to present the key results to all of the staff. As mentioned above, such results have been used in further

auditing of the organisations. The Office has also received requests from organisations for having such surveys performed, even if no plans were afoot to audit them.

Anonymous system useful in other respects

The system has not only been used in conducting attitude surveys in organisations, such as the Icelandic Meteorological Office and the University of Iceland. It has also been used to investigate the scope of codes of conduct in public administration in Iceland, as well as attitudes to such codes. In addition, questionnaires have been sent to the heads of all public bodies, who had the option of responding either electronically or by post. Unlike the normal procedure, this survey was not anonymous.

Future vision

Through attitude surveys in public bodies in connection with performance audits, the Office obtains very important information about them. The more standardised the survey, the easier it is to compare organisations or intra-organisation attitudes between years. Thus, the Office collects information into a valuable databank on the bodies audited. In addition, it provides public bodies with useful information for their strategy formulation and planning.



The language of bureaucracy – in other words

THORIR OSKARSSON, COMMUNICATION AND EDUCATION OFFICER

THE LANGUAGE OF BUREAUCRACY need not be antithetical to good modern writing. Its quality is solely up to those who use and shape it. It should – in other words – be part and parcel of public bodies' efforts to ensure the quality of their services.



The language of bureaucracy can hardly be said to evoke positive feelings among the general public. Most people associate it with the stern and rigid “officialese” that was the accepted style for official letters, reports and decrees well into the second half of the twentieth century. This idiom’s overly long sentences and various fixed, formulaic phrases are far from extinct. In addition, government language inevitably draws on the language of experts, often characterised by specialised terminology and complex explanations

Neither of these idioms is specific to Iceland – they are well known in all of the countries that we are familiar with. The claim can even be made that the most extreme form of Icelandic officialese is to be found in the translations of international directives, agreements and standards, where a faithful translation of the source text is the key consideration.

In the past few years, public bodies around the world have come to realise the importance of effective communication with their day-to-day customers and the general public. The reasons for this trend include ever-stiffer competition with private companies for services, and rising public demands for two-way information sharing and seamless access to public data. As a result, many public bodies have placed a strong emphasis on their staff expressing themselves in the clearest, most up-to-date and effective language possible, thereby bridging the gap that had gradually opened between government and everyday language.

Among our neighbouring countries, the Swedish Government Offices have for years been working energetically on bridging this gap. Not only have they worked against traditional officialese, but they have also rewarded those that have had a positive influence on the development of Swedish official language or are in some way models of language usage. The National Audit Office of Denmark has also sought to meet criticism through a special effort aiming for clear and simple modern usage. The University of Iceland has adopted a language policy for its staff, encouraging them to speak and write well and take active part in language maintenance.

Clearly, public bodies and their customers benefit in a number of practical ways from the use of plain and intelligible language:

- It improves the public bodies' image and raises the credibility of the material they issue.
- It ensures access for the highest possible number of people to the information they need, prevents misunderstanding and strengthens democracy.
- It contributes to quick and effective delivery of information, thus saving time and effort both for the senders and the recipients.

No single definition of good language exists – it will always depend on the subject matter, circumstances, goals, the target audience and the medium used. However, various arguments support the view that good government language should fulfil the following three criteria.

- It should be accepted language, i.e. based on society's public language policy and general grammar and spelling rules.
- It should be readily understandable, i.e. use unpretentious modern language as a key criterion.
- It should be effective, i.e. logical, credible and convincing.

With such perspectives in mind, the Icelandic National Audit Office has in the past few years emphasised that its staff adhere to the following guidelines.

- Use words readily understandable to the intended readers or audience.
- Use logical and unambiguous words and give a clear and consistent overview of the subject matter.
- Use unpretentious but well crafted and grammatically correct modern language, lucid and expressive words and short as well as simple paragraphs.
- Use rich and varied language, avoiding clichés and meaningless words.

Nobody expects official writing to rival literary works in linguistic and stylistic beauty. However, it is reasonable to expect official texts to show clarity of thought and disciplined presentation. Language is itself a good indicator of these aspects, i.e. in choice of words and their arrangement into sentences and paragraphs



Indicators of activities and performance

THE NATIONAL AUDIT OFFICE'S STATUTORY DUTIES include examining and certifying the reliability of indicators on the activities and performance of government entities if reported in their financial statements

Indicators of activities and performance not only have informational value, but can also have various practical uses in management by indicating how public bodies are progressing towards achieving their goals. In the past few years, the Office has monitored its

own performance in a targeted manner. To this end, it has developed a number of performance indicators to assess four key aspects of its operations: 1) Services, 2) Internal Processes, 3) Staff and Development and 4) Finances.

The Office's services

THE NATIONAL AUDIT OFFICE endeavours to provide opinion and information that is useful for the decision-making of central government agencies and enterprises.

The vast majority of reports and memoranda written each year by the Office are intended solely for the public agencies and ministries in question. Only 12-14 of them are made public, printed in upwards of 300 copies and sent to public bodies, ministries, parliament and the media for discussion. They are also published on the Office's website.

These reports have frequently contributed to opening discussion about specific issues or to changes. One example is the 2004 performance audit *Pharmaceutical costs: Use, pricing and supply of pharmaceuticals in Iceland*, which no doubt played a part in an agreement being made between the Ministry of Health and Social Security and the

Association of Icelandic Importers, Exporters and Wholesale Merchants on lowering drug prices in Iceland.

The Office has, as yet, not had the opportunity to directly investigate the views of those that it is intended to serve on its reports. During the past four years, however, the Office has monitored public interest in the material published on its website in order to assess how effectively it is presented. Following slow growth in 2001 and 2002, the number of document accesses doubled in 2003. Although this figure was not matched in 2004, the number of accesses was still substantially higher than in 2001 and 2002.

Number of document accesses on the Office's website

Year	Q1	Q2	Q3	Q4	Total
2002	1.822	1.840	2.462	2.962	9.086
2003	3.245	4.992	4.982	5.175	18.394
2004	3.275	3.422	2.944	3.015	12.656

The 11 reports published by the Office in 2004 were accessed 3,380 times in total. This corresponds to each report being accessed 307 times on average. This is an increase

from 2002 but a drop from 2003, when the 13 reports published were accessed 426 times on average.

Five most-read reports on the Office's website

	2003		2004	
1	Commissioners' computer Systems	927	Staff salary trends	562
2	Indicators of activities and performance	900	Implementation of the Government budget	554
3	Was it a success?	623	Pharmaceutical costs	461
4	Icelandic Civil Aviation Administration	590	Supplemental compensation	433
5	Merger of hospitals	577	Was it a success?	420
Total		3.617		2.430

Measurable public interest in the Office's reports is determined by their content and various external factors, such as whether university faculty staff refer to them in teaching, as happened in the case of *Indicators of Activities and Performance in 2003*. Nonetheless, the Office clearly needs to pay closer attention to whether its publications' presentation and distribution can be improved for the benefit of the general public.

For that purpose, the Office has in recent years published press releases outlining the subject matter of new reports. The content of such press releases is often published in the media, as well as being most read by far on the Office's website. It is not uncommon for 600 to 700 people to read each press release per year. The Office has also emphasised writing its reports in good language readily understood by general readers.

Internal processes

THE NATIONAL AUDIT OFFICE aims to operate efficiently and provide quality services.

The Office places a strong emphasis on efficiency and quality in its work. It strives to achieve this objective by increasing the number of reports, memoranda and financial statements that are produced, and completing them in a timely enough fashion for them to be of use in decision-making regarding the operations of government

agencies and enterprises. During the past few years, efficiency in financial auditing has increased significantly. As expected, however, the year 2004 saw a fall in output owing to a reduced work contribution by staff. Nonetheless, the Office managed to keep on target and implement the plans made at year-start based on contracted operations.

Financial audits	2002	2003	2004
Certified annual accounts	328	370	357
Audit reports	269	274	259
Total	597	644	616

Looking at other reports issued by the Office, i.e. guidelines and performance and environmental audit reports, 2004 was a fairly

productive year in comparison with the past few years. The Office issued a total of 10 public reports and guidelines, one fewer than

in 2003 but three more than in 2002. In addition, 15 memoranda were written, com-

pared with 17 in 2003 and 9 in 2002.

Other reports	2002	2003	2004
Performance audits	6	9	10
Memoranda, etc.	9	17	15
Publications	1	2	0
Total	16	28	25

The Office has measured its own efficiency by, among other things, measuring the time it takes to perform certain tasks. The dates of endorsed financial statements, for example, are an important indicator of whether the Office's internal processes are working

properly. Comparison between the last three years of the time it takes to prepare and write the report *Audit of the Central Government Accounts* from the time that *Government Accounts* is issued shows that the Office did a good job in 2004.

Efficiency in audit of the Central Government Accounts

Year	Central Government Accounts	Audit of the Central Government Accounts	Number of days
2002	25.09	19.11	55
2003	21.08	06.11	76
2004	30.09	19.11	50

Staff and development

THE NATIONAL AUDIT OFFICE seeks to recruit well-trained and capable staff that are enthusiastic about improving and developing their skills and competencies. In addition, the Office endeavours to promote an encouraging morale in the workplace

To measure the Office's human resources, the following aspects, in particular, are considered: the ratio of staff with a university degree, the number of vocational retraining days, the ratio of staff with more than three years' experience, their average length of service, the number of audit hours and the

number of absent days due to illness. The ratio of staff with a university degree has remained fairly level in the past three years, or about and upwards of 80%. Looking solely at staff doing audit work, the ratio is significantly higher, or approximately 95%.

Ratio of staff with a university degree	2002	2003	2004
All staff	82%	80,4%	80%
Audit staff	95%	95,1%	95%

Since a number of employees are currently studying for a university degree, this ratio can be expected to climb over the next few years. In addition, a rise in the proportion of staff with a master's degree or certification as public accountants is foreseeable.

The Office emphasises that staff should engage in regular professional retraining, to which they are expected to devote an average of 40 hours per year. For the past few years, this figure has, in fact, exceeded 50 hours, reaching 51.7 hours in 2004 and

53.3 hours in 2003. The Office has both held special courses tailored to staff needs, and enabled them to pursue studies or attend courses elsewhere. It spent a total of ISK 10.4 million on staff development and retraining in 2004, or approximately 3% of the Office's total expenses.

The percentage of permanent employees with at least three years' work experience at our office has grown steadily in recent years, or from 62.7% in 2002 to 78.7% in 2004. Their average length of service has also increased, now standing at 10.7 years, compared with 9.6 years in 2003.

The ratio of staff with at least 3 years' work experience

31.12.2002	31.12.2003	31.12.2004
62,7%	72,5%	78,7%

A high ratio of staff with much work experience certainly has its advantages and disadvantages. On the one hand, it is an indicator of workplace stability, i.e. staff's loyalty to the employer, their general satisfaction with the work environment as well as the team spirit and their interest in and knowledge of their field of work.

However, too little personnel turnover can be unfavourable if it prevents normal and necessary staff renewal, and if it continues for too long it can cause an abrupt change in the workforce. One of the key reasons why the average length of service of the Office's staff increased in 2004 was that no replacements were recruited for the two employees who left. This is expected to change in 2005.

Little personnel turnover also saves substantial funds in relation to recruitment, the training of new employees and the knowledge lost when experienced staff members leave. It is sometimes found that the direct and indirect costs of losing one employee and hiring a replacement correspond to approximately one year's salary.

Owing to the Office's difficult financial position in 2004, its staff's work hours dropped in number by 6% from 2003. This affected its work considerably, causing its output to fall year-over-year. Nevertheless, the number of hours worked was substantially higher than in 2002.

Number of audit work hours

2002	2003	2004
66.272	76.440	71.856

In many of our neighbouring countries, the number of sick days has soared in the past few years. Many connect this to a work environment in which great demands are made of staff and work contribution has much effect on career development. Under such conditions, the risk of mental and physical illness rises. For example, a recent Danish study points out that 1/3 of all sick absences can be explained by conditions in the workplace. As yet, the sick-absence rate is significantly lower in Iceland than in other Nordic countries. The employees of Icelandic companies were absent for an average of 8

days in 2000, compared with 10 in Denmark in 2001.

Comparison could not be made with other countries for the year 2004. Therefore, figures for the year are limited here to sick absences among the Office's staff. As shown in the table below, sick absences grew in average from 5.8 days in 2002 to 6.9 in 2004. The long-term illnesses of some of our staff clearly took its toll on this figure for 2004. As a ratio of the total hours worked, sick absences increased from 2.6% in 2002 to 3.1% in 2004.

Number of sick days per employee			
	2002	2003	2004
Own illness	4,5	4,0	5,8
Illness of children	1,3	1,7	1,9
Total	5,8	5,7	6,9

Finance

THE NATIONAL AUDIT OFFICE aims to maintain its operations within budget and to ensure that its work is performed in an economic manner.

After two years of running a budget deficit, the Office achieved an ISK 16.5 million surplus for 2004. Thereby, it offset the accumulated deficit for 2003 of ISK 15 million and managed to keep within budget. This was achieved mainly through an extensive cost-cutting programme instigated right from

year-start 2004. Among other measures, overtime was cut, salaries were frozen and new recruitment to replace staff that left was postponed. In addition, renewal of various supplies and equipment, such as computers, was rescheduled.

Aggregate operating surplus in millions of ISK			
Year	Position at year-start	Surplus (deficit)	Position at year-end
2002	47	-19	28
2003	28	-43	-15
2004	-15	16.5	1.5

In order to assess economy in its operations, the Office has listed the costs resulting from, on one hand, the services of the Office's employees and, on the other hand, from bought-in services. The list covers three

years and is based solely on financial audit, as bought-in services were used mostly in that division. The conclusions indicate unequivocally that operating costs are well within normal limits of cost-efficiency.

Cost per hour in financial audit in ISK			
Year	Bought-in services	Office's staff	Difference (%)
2002	6.747	4.378	2.369 (35,1%)
2003	7.043	5.015	2.028 (28,8%)
2004	7.364	5.093	2.271 (30,9%)

Human resources policy

THE NATIONAL AUDIT OFFICE'S HUMAN RESOURCES POLICY is shaped by the principle that a well-educated, interested and satisfied workforce is the key to success. The policy's main goals are, therefore, to provide excellent working conditions for our staff, enhance their capabilities and foster morale and team spirit in the workplace. In so doing, the Office is best positioned to fulfil its role.

The chief components of the Office's Human Resources Policy are as follows:

1. A sought-after workplace

The Office aims to be a sought-after employer whose staff are satisfied and are afforded first-rate conditions to carry out their work. The Office is also committed to enhancing its staff's social life and enabling them to balance their work and private lives.

2. Induction of new recruits

The Office endeavours to provide new employees with a good reception and orientation, and assists them in assimilating quickly with existing staff. New recruits also receive instruction and are briefed about the Office's projects as well as their rights and obligations in the workplace.

3. Inter-employee relations

The Office emphasises building a good team spirit in the workplace. Important aspects of inter-employee relations include equality, mutual friendliness, tolerance and trust as well as positive and effective internal communications.

4. Mutual expectations

The Office expects its employees to perform their duties with professionalism, diligence

and integrity. At the same time, the Office strives to meet its staff's expectations for job security, fairness, trust and consideration, as well as professional development.

5. Staff training, retraining and continuous learning

The Office strongly encourages its employees to maintain and develop their knowledge, among other things by taking active part in the Office's retraining and continuous-learning programmes

6. Staff rotation

The Office finds it important for its staff to regularly take on new tasks, for example through transferring between posts. This enables our employees to expand their skills and prevents repetitious work.

7. Staff interviews and performance reviews

The Auditor General interviews each employee once per year to discuss the latter's achievements and performance. The interviews also provide an opportunity for employees to express their views and wishes.

Publications in 2004

List of reports produced

1. The Höfdi Residential Care Home for the Elderly: Operation and financial position in the years 2000-2002 (January)
2. Staff salary trends at a number of health care organisations in 2000-2002 (February)
3. Pharmaceutical costs: Use, pricing and supply of pharmaceuticals in Iceland (March)
4. Iceland and OSPAR: Environmental audit (March)
5. Supplemental Compensation – Review in continuation of the Audit of the Central Government Accounts 2002
6. University education: Courses of study available and student numbers (June)
7. Implementation of the Government Budget 2003 (June)
8. FSA University Hospital (August)
9. Audit of the Central Government Accounts 2003 (November)
10. The Icelandic Institute of Natural History: Operational and financial problems (November)
11. Afforestation: The legal framework of the Icelandic Forest Service and regional afforestation projects (December)

Other publications

1. Annual Report 2003 (Icelandic) (April)
2. Annual Report 2003 (English translation) (April)



Financial Statements 2004

Report of the Management and Endorsement of the Financial Statements

The Icelandic National Audit Office is responsible to the Icelandic Parliament and operates 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 over 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 2004, the Office's operations generated a surplus of ISK 16,450 thousand. According to the Balance Sheet, the assets of the Office amounted to ISK 9,353 thousand and equity amounted to ISK 1,126 thousand at year-end 2004.

The Auditor General and the Head of Financial Audit Division I certify the Financial Statements of the National Audit Office with their signatures.

The Icelandic National Audit Office, 7 March 2005



Sigurdur Thordarson, CPA
Auditor General



Sveinn Arason, CPA
Head of Financial Audit Division I

Auditor's Report

To the Icelandic Parliament

I have audited the Financial Statements of the Icelandic National Audit Office for the year 2004. The Financial Statements contain a Profit and Loss Account, a Balance Sheet, a Statement of Cash Flows and Notes. The Financial Statements are submitted by the management of the National Audit Office and are its responsibility in accordance with laws and regulations. My responsibility is to express an opinion on these Financial Statements based on my audit.

I conducted my audit in accordance with the provisions of the National Audit Act and generally accepted auditing standards. According to this, I am, inter alia, obliged to:

- obtain reasonable assurance that the Financial Statements are free of material misstatements,
- examine internal control and assess whether it ensures adequate results,
- examine whether the Financial Statements conform to the authorisations of the Government Budget, Supplementary Budgets and other laws, lawful instructions, standard procedures and projects, as applicable,
- examine and certify the reliability of financial ratios regarding the activities and performance of the operation if they are published together with the Financial Statements.

The audit includes examination, based on sampling, of evidence supporting the amounts and disclosures in the Financial Statements. The audit also includes assessing the accounting principles used and valuation rules which are used in their preparation and overall presentation and apply to Group A entities. I believe that my audit provides a reasonable basis for my

In my opinion, the Financial Statements give a true and fair view of the operation of the National Audit Office in the year 2004, its Balance Sheet as of 31 December 2004 and change in cash during the year 2004, in accordance with laws and regulations and generally accepted accounting principles for Group A entities.

Reykjavik, 7 March 2005



Gunnar Sigurdsson
Chartered Accountant

Profit and Loss Account 2004

	2004	2003
Operating revenue		
Sale of services	35.692.681	38.732.992
Other income	973.256	905.007
	36.665.937	39.637.999
Operating expenses		
Salaries and related expenses	259.299.335	259.682.298
Administrative expenses	9.766.345	11.456.142
Meeting and travel cost	10.964.285	13.344.637
Expert services purchased	35.679.277	34.481.210
Operations of equipments	2.022.431	2.360.990
Other operating expenses	2.348.027	2.601.704
Housing	18.110.640	17.863.693
Operation of vehicles	275.734	506.285
Grants	550.000	1.600.000
	339.016.074	343.896.959
Purchased assets	0	23.095.456
	338.974.276	366.992.415
Operating profit (-loss) before Government contribution	(302.350.137)	(327.354.416)
Treasury Contribution	318.800.000	284.400.000
Profit (Loss) for the year	16.449.863	(42.954.416)

Balance Sheet, 31 December 2004

	2004	2003
Assets		
Current assets		
Treasury	3.241.365	0
Accounts receivable	5.878.963	12.651.367
Cash and cash equivalents	232.672	231.752
	9.353.000	12.883.119
Total assets	9.353.000	12.883.119
Equity and Liabilities		
Equity		
Equity at the beginning of the year	(15.323.866)	27.630.550
Profit (Loss) for the year	16.449.863	(42.954.416)
Equity	1.125.997	(15.323.866)
Liabilities		
Current liabilities		
Treasury	0	22.709.653
Accounts payable	8.227.003	5.497.332
Liabilities	8.227.003	28.206.985
Equity and Liabilities	9.353.000	12.883.119

Cash Flow Statement 2004

	2004	2003
Cash flow from operations		
<i>Cash flow from operating activities:</i>		
Profit (Loss).....	16.449.863	(42.954.416)
Cash flow from operating activities:	<u>16.449.863</u>	<u>(42.954.416)</u>
<i>Changes in current assets and liabilities:</i>		
Accounts Receivable, decrease / (increase).....	6.772.404	(256.767)
Accounts payable, increase.....	2.729.671	30.790
	<u>9.502.075</u>	<u>(225.977)</u>
Net cash provided by operating activities	25.951.938	(43.180.393)
Cash flow from financial activities		
<i>Changes in balance with the Treasury:</i>		
Treasury contribution.....	(318.800.000)	(284.400.000)
Received from the Treasury.....	292.848.982	327.594.619
Net cash from by financing activity	<u>(25.951.018)</u>	<u>43.194.619</u>
Net increase in cash and cash equivalents.....	920	14.226
Cash and cash equivalents at the beginning of the year.....	<u>231.752</u>	<u>217.526</u>
Cash and cash equivalents at the end of the year	<u>232.672</u>	<u>231.752</u>

Notes

Accounting Policy

Basis for the Financial Statements

The Financial Statements of the National Audit Office have been prepared in accordance with the Government Financial Reporting Act No. 88/1997, the Annual Accounts Act No. 144/1994 and the Government Regulation on the Presentation and Contents of Annual Accounts and Consolidated Financial Statements No. 696/1996.

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.

Central government bodies and enterprises generally do not pay income tax or net worth 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. Invoices are signed off and sent to The State Accounting Office for payment. Transactions are booked in the Accounts Payable system.

Operating Divisions

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

Account receivable

Account receivable are entered at nominal value in addition to incurred interests where that is relevant.

Cash and Cash Equivalents

The Office keeps no funds but has bank accounts.

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 that is relevant.

Notes

Accounting and Payment Functions

The State Accounting Office has been entrusted with handling payroll matters, accounting and payment services for the Office.

Budget and Operations

The Treasury Budget for the year 2004 anticipated similar activities as previous year. The appropriations of the Treasury Budget totalled ISK 294,700 thousand. Budgetary transfers due to salary increases were ISK 9,100 thousand in 2004. The Office got a supplementary budget of ISK 15,000 thousand due to prior year deficit. The total budget for the year 2004 was therefore ISK 318,800 thousand.

Operating expenses less sale of services totalled ISK 302,308 thousand and were ISK 16,492 thousand inside the budget provision. Operating expenses are specified as follows:

In ISK thousands	Initial	Total budget	ancial Stateme	Differences
Sales of services	(11.700)	(11.700)	(36.666)	24.966
Salary and salary-related expenses.	225.500	234.600	259.299	(24.699)
Other operating expenses.....	75.200	90.200	79.167	11.033
Transfers.....	0	0	550	(550)
	<u>289.000</u>	<u>313.100</u>	<u>302.350</u>	<u>10.750</u>
Purchased assets.....	5.700	5.700	0	5.700
	<u>294.700</u>	<u>318.800</u>	<u>302.350</u>	<u>16.450</u>

Break-down in ISK thousand by type:

	2004	2003
Sales of services.....	(36.666)	(39.638)
101 Icelandic National Audit Office.....	339.016	343.897
601 Equipment	0	5.095
601 Building construction	0	18.000
	<u>302.350</u>	<u>327.354</u>

Divisions

Profit and Loss Account by divisions in ISK thousands:

	2004	2003
Office management	25.579	27.683
Financial Audit Division.....	176.300	190.894
Performance Audit Divisions	79.427	85.980
Legal Division.....	21.044	22.797
	<u>302.350</u>	<u>327.354</u>



RÍKISENDURSKOÐUN

Skúlagata 57, P.O. Box 5350, 125 Reykjavík, IS-Iceland
Tel: +354 561 4121; Fax: +354 562 4546
Homepage: www.rikisendurskodun.is