



The Icelandic National Audit Office Annual Report 2013

April 2014

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Introduction by the Auditor General



During the past few years, working groups acting under the auspices of the Ministry of Finance and Economic Affairs have been actively engaged in the revision of the Act on Government Financial Reporting that was originally created in 1997. Representatives from the Icelandic National Audit Office (INAO) have participated in this work. A draft bill for an act on public finances was introduced last summer and the Minister of Finance and Economic Affairs recently introduced a complete bill in the Althingi. If this bill is enacted there will be great changes in the management of public finances, including in the budget process and accounting. To begin with the bill embodies a comprehensive legal framework for all public finances, i.e. both state and local. The objective is to ensure that these parties operate in line with each other and that the management of public finances is efficient and economical. A comprehensive policy will be laid out for government finances according to specific principles: sustainability, precaution, stability, firmness and transparency. Specific numerical principles will be set concerning government finances (fiscal rule), e.g. the plan is for the overall budgetary position of Group A government and municipal enterprises to always be positive over a five year period and that the annual deficit will never exceed 2.5% of GDP. It is also stipulated that the overall debt according to a specific definition shall be less than 45% of GDP. Furthermore a special three member financial board will be established with a commission to watch that the policy and plans regarding government finances are in accordance with the above principles and fiscal rule. In

addition the following changes are envisaged: a change in the definition of appropriations, a reduction in the number of budgetary items and more explicitly defined responsibilities regarding budget preparation and execution, to name but few. Regarding the activities of the INAO it is of major importance that government accounting will, following the enactment of the law, be in compliance with International Public Sector Accounting Standards – IPSAS. This will entail a big step forward because the central government accounts will provide more detailed information about the budgetary and financial position of the central government and contain more detailed notes than before. It is my sincere hope that these extensive improvements will be realised.

In 2011 I placed a request with the Dutch National Audit Office, *Algemene Rekenkamer*, that the Dutch Office would lead an international peer review on the INAO. The response was positive and later the Norwegian and the Swedish national audit offices agreed to also participate in the review. It was decided to divide the project into two independent phases. The first phase, an audit of the INAO's performance audit practice, was completed in 2012 and the latter, an audit of the Office's financial audit practice, was completed last year. The reports for the two phases are published on the Office's website, www.rikisend.is, in English and Icelandic. Overall the conclusions are rather positive for the Office and its staff. However several opportunities for improvement are pointed out. The Office has already responded to many of these recommendations and is preparing a response to others. The peer review has yielded great benefits for the Office.

The INAO operates on behalf of the Althingi and is engaged on its behalf in the audit and monitoring of the central government operations. Every year the Office sends numerous reports to the Althingi which are then discussed in accordance with the provisions of the Parliamentary Procedures Act. According to the act the Constitutional and Supervisory Committee shall discuss all the reports issued by the Office but the committee may refer reports to another parliamentary committee for discussion if the report's content so requires. There is a longstanding tradition for having the Budget Committee discussing the reports from the Office regarding the execution of the government budget and the audit of the central government accounts. The INAO has always placed great emphasis on maintaining good and constructive relations with these two parliamentary committees. What is referred to as the Orri-case, that emerged in the latter part of 2012, cast a shadow over these relations for a while but recently there has been a movement towards normalisation of relations which is a good development. Furthermore the INAO has always had good relations with the Speaker of the Althingi and the Presidential Committee.

The INAO has for a long time participated actively in the international cooperation of supreme audit institutions within INTOSAI and EUROSAI. The undersigned was a member of EUROSAI's governing board during 2008–2011. The INAO has also had bilateral relations with various foreign sister institutions over the years. Because of cuts in appropriations over the recent years the Office has significantly cut down on its foreign relations and its participation in international cooperation. In 2009 it was decided to discontinue the participation in EUROSAI working groups. Following the

the VIII EUROSAL Congress in 2011 it was however decided that the Office would participate in the Task Force on Audit and Ethics. The conclusions of the task force will be presented during the the IX EUROSAL Congress in the Hague this coming summer.

Cooperation among the national audit offices of the Nordic countries has a long tradition and has always been close and strong. The auditors general of the respective countries meet every year and discuss various professional issues, both issues that are being discussed in the venue of the INTOSAI and issues that have a special relevance regarding the Nordic offices. Last year the meeting of the Nordic auditors general was held here in Iceland and hosted by the INAO which organised and administered the meeting. The meeting approved important changes in the cooperation. Up until the present the staff from different organisational units of these offices have met regularly and compared notes. Replacing these meetings the plan is now to organise larger interdisciplinary seminars on different subjects every two years.

In 2013 the Office was operated with an ISK surplus of 29.6 million compared to an ISK 29.1 million deficit in 2012 and a deficit of ISK 33.9 million in 2011. This turnaround following a two year period of deficits stems from restraint measures that were initiated in 2012, leading to *i.a.* a reduction in staff number and to the decision to cease paying the cost of auditing nursing homes that are operated by non-profit organisations, private limited companies and municipalities. These changes paid off in full during 2013 which is evidenced by the net expenses of the Office, *i.e.* taxes minus special income, fell between years approximately by ISK 35 million or 7.6%. Accumulated unused appropriations by year-end 2013 amounted to ISK 36.6 million.

Budget appropriations in 2013 amounted to ISK 454.1 million which was an increase of ISK 23.7 million from the previous year, or 5.5%. According to a proposal from the then speaker of the Althingi there was an agreement that the appropriation should be sufficient to operate the Office with approximately 42 full-time equivalent positions. On the other hand this goal was not reached in the 2014 budget. Further account of the financial position of the Office is given in the annual financial statements on pg. 32–38 in this report.

The INAO staff has consistently performed their work with integrity and professionalism. All material, reports and other publications, which the Office issues is a clear indication of this. The year 2013 was no exception in this regard. In conclusion I wish to use this opportunity to thank the employees for a job well done.

Sumar Arason

Role, legal status and strategy

Althingi's
independent
monitoring body

The INAO is an independent agency operating under the auspices of the Althingi (Iceland's parliament). The Office audits the central government accounts and the accounts of agencies and organisations that are involved in running an operation or in the management of funds for the government. Its role is also to monitor and promote improvements in the financial management of such entities and in their more economical operation, efficiency and effectiveness. The Office's vision is to be a leader in government auditing.

The INAO operates under the National Audit Act (No. 86/1997) and, as the case may be, according to the Act on Auditors (No. 79/2008) as well as various other acts of law applicable to its operation, such as the Act on State Finances (No. 88/1997) and the Civil Servants Act (No. 70/1996). Furthermore the Office has had various responsibilities and tasks allocated to it under other acts of law, such as the Act on Funds and Organisations that Operate Under a Charter (No. 19/1988), Act concerning Cemeteries, Burials and Cremation (No. 36/1993) and the Act on the Finances of Political Groups and Candidates and on their Duty to Disclose (No. 162/2006). The Office takes account of the standards and guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI) and the standards of the International Federation of Accountants (IFAC). Moreover its employees follow the Office's Code of Professional Conduct which is based on ISSAI 30. As the INAO operates under the auspices of the Althingi, the Administrative Procedures Act and the Information Act do not apply to the activities of the Office. Nevertheless, a number of unwritten principles of administrative law apply to the Office, such as principles on competence. Taking into account acts of law, rules, standards and guidelines, the INAO has defined its principal tasks in the following manner:

Financial Auditing

Main tasks

Auditing 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. Auditing the accounts of entities that operate under the auspices of the state or provide statutory services or which undertake other projects in exchange for payment or contributions from the state. Examination of the internal controls and security of IT systems. Recommendations on what improvements may be made to accounting, financial statements, internal controls and the operation and security of IT systems.

Performance Auditing

Audits of the performance of public bodies, state-owned enterprises and parties that accept contributions from the State. Assessment of economy, efficiency and effectiveness of operations. Recommendations on how performance may be improved.

Monitoring the Implementation of the Government Budget

Monitoring whether the finances and financial decisions of public bodies are in accordance with the Budget, the Government Financial Reporting Act and the Regulation on the Implementation of the Government Budget.

Monitoring the Finances of Self-owned organisations (foundations)

Monitoring the finances of funds and public bodies operating in accordance with approved charters.

Monitoring the finances of political parties and political candidates

The receipt, processing and publication of information on the income and expenditure of political parties and candidates who participate in pre-elections.

By law, the INAO has a very broad mandate for auditing. The Office may call for financial statements from public bodies, associations, funds and any other bodies that receive government funds or guarantees. Furthermore, the Office is permitted access to original documents and reports prepared concurrently with invoices issued to the government, in order to verify the content of the invoices and the Treasury's payment obligations. Finally, the Office may call for reports on the disbursement of grants and other contributions from public funds and assess whether such payments have achieved the intended results.

Broad mandate

The INAO selects and organises its own projects and is not dependent on any entity, even though it is constitutionally under the auspices of the Althingi. The Presidium of the Althingi, however, may require the Office to submit reports on matters that come within its mandate. In such cases, however, the Office determines the approach, the methods used, when the report is completed and the manner in which the conclusions are presented. Under the Act that applies to the Office the staff of the INAO shall be completely independent of those Ministries and organisations where the audit is being carried out.

Independence

The INAO notifies the appropriate public bodies, the Althingi and the media of the results of its investigations through 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 INAO in accordance with the Althingi Procedures Act and the rules applying to the parliamentary treatment of reports from the Office.

Publications and external communication

The INAO has formulated a comprehensive strategy based on the methodology of *Balanced Scorecard*. The INAO's strategy map contains a total of 10 key objectives: These objectives cover the four basic dimensions of the operation which are: services, procedure, human resources and finances. The objectives of the services dimension of the scorecard pertain to the services that the Office provides for the Althingi and for the government administration. The objectives of the procedure dimension pertain to the procedures and processes that the Office applies in order to provide maximum quality services. The human resources dimension in the scorecard contains the objectives that concern the capabilities and resources of the staff. These objectives

Strategic planning

contribute in a certain manner to the attaining of the objectives of the procedure dimension. The objectives of the finances dimension pertain to economy and good financial management. They advance the attainment of the objectives of all the other dimensions. The values adopted by the INAO are integrity, independence and professionalism. The staff is expected to keep these values in mind both in their work as well as outside work.

Activities and operation of the INAO in 2013

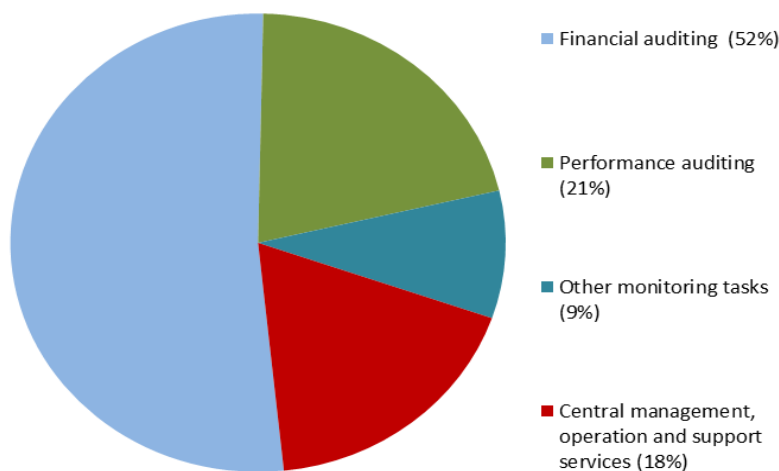
Division of work contribution between tasks

In 2013, the number of active man-hours of the INAO's employees came to a total of 67 thousand, decreasing by more than 4 thousand from the previous year, or by 6%. Active man-hours refer to the hours employees are at work, with absences due to illness or holiday for example, excluded. The reason for the decrease in active man-hours between years is primarily that the reduction in number of employees that was implemented in 2012 did not have full effect until last year. Also one employee left early during the year and the replacement was not hired until some time later that year. Furthermore one employee was taking parental leave during the first part of the year and resigned later that autumn. No replacement was hired for that employee until this present year. In addition to the work contribution of employees, the Office purchased services from auditing firms corresponding to approximately one thousand working hours.

The number of active man-hours decreased by 6% from previous year

As has been the case in recent years most of the working time was spent on financial auditing which totalled more than half of all active man-hours (52%). This was a slightly higher ratio than in 2012 when the ratio was 48%. Over on fifth (21%) of active man-hours were used for performance auditing which is a slightly lower ratio than the previous year when this ratio was 24%. Other monitoring tasks occupied 9% of the time and administrative tasks, operation and support services amounted to approximately 18%. Overall it may be said that the changes in this division were insignificant between years.

Ratio according to active man-hours by tasks 2013



Approximately two thirds of active man-hours were spent directly on auditing and monitoring tasks involving ministries and their agencies. One third was used for other monitoring tasks (such as monitoring the financial reporting of political organisations and chartered funds), internal affairs (such as training and professional development) and central administration, operation and supporting services.

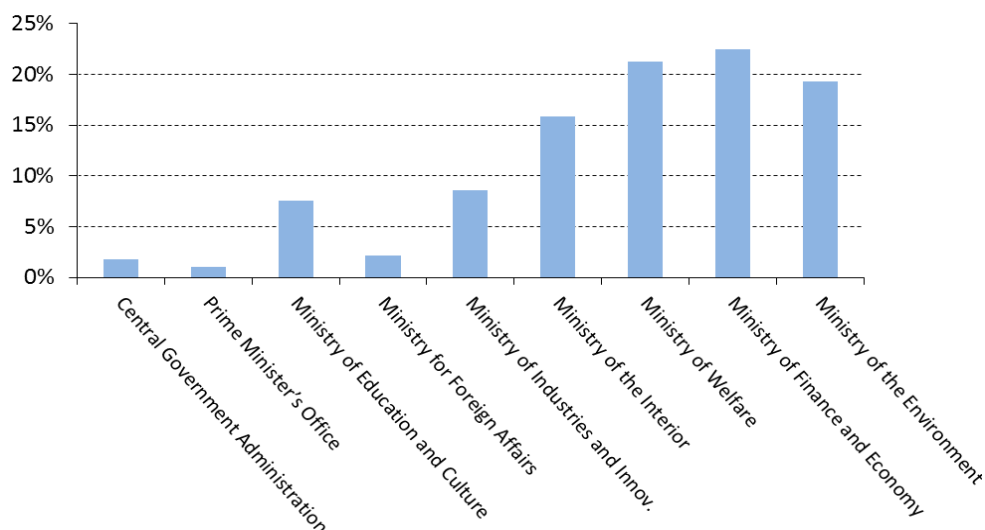


Employees of Administrative Services who manage the general operation of the Office, reception, cafeteria and sundry support services.

The major part (78%) of the time used directly for auditing and monitoring at ministries and agencies was used for tasks connected with four ministries: the Ministry of Finance and Economy, the Ministry of Welfare, the Ministry for the Environment and Natural Resources (see the following fig.) Less time was spent on the auditing and monitoring of other ministries and the central government administration. The division of the time spent is determined *i.a.* by risk assessment and task selection in each case. Thus there is a difference between years which ministries are subject to performance audits and other types of audits. Therefore there may be considerable fluctuations between years.

Considerable
fluctuations between
years

Active man-hours in audit and monitoring according to ministries 2013



Revenue and expenditure

The total expenditure of the INAO was ISK 472.3 million in 2013 a reduction of ISK 29.6 million between years or 6%. This reduction has a twofold explanation. On the one hand there were the austerity measures imposed in 2012 that had their full impact in the operation in 2013. The most important of which is the cut down of the workforce. On the other hand the INAO stopped last year to pay the cost of auditing of nursing homes that are operated by chartered institutions, private parties or municipalities. These measures significantly reduced the cost of contracted professional services. The special income was ISK 47.8 million and the state contribution was ISK 454.1 million. Accordingly there was a surplus of ISK 29.6 million which was a turnaround compared to 2012 when there was a deficit of ISK 29.0 million. Further information about the operation and financial position can be found on page 32–38.

Turnaround in the operation

Summary of 2011 and 2013 profit and loss statement (ISK millions)

	2013	2012	Change	%
Salary and salary-related costs	392,6	394,8	-2,2	-1%
Other operating expenses	76,5	105,3	-28,8	-27%
Formation expenses	3,2	1,8	1,4	78%
Cost and expenses Total	472,3	501,9	-29,6	-6%
Special revenue	47,8	42,4	5,4	13%
Expenses minus income	424,5	459,5	-35,0	-8%
Government contribution	454,1	430,4	23,7	6%
Revenue surplus (deficit)	29,6	-29,1	58,7	-202%

Human resources

In 2013 two employees resigned from the INAO and the same number were hired. Overall the number of employees stayed the same at 42 both at the beginning of the year and the end of the year. Of these there were 22 females and 20 males. It might be mentioned that because of a cutback in the appropriations for the agency in recent

years the agency's number of employees has been reduced significantly. Between the years 2008 and 2012 the total number of employees was therefore cut by seven, from 49 to 42. This reduction has principally been implemented by not hiring when positions have become vacant.

5% employee turnover

Employee turnover is defined as the proportion of employees who resign during the year out of the total number of employees at year-end. As earlier mentioned two employees resigned from the INAO last year which corresponds to a 5% employee turnover. This is a significantly lower turnover than in 2012 when the employee turnover was 14% when it was unusually high. During the period 2009–2011 the agency's annual employee turnover was 2–4%.

The average age of employees by the end of 2013 was 53 years. For comparison it could be mentioned that last year the average age of the employees at the government offices was over 49 years. The ratio of employees who had at least a three year work experience at the Office was 91% in 2013 and the average length of service was more than 15 years.

Key figures in human resources				
	2013	2012	2011	2010
Employee turnover	5%	14%	4%	4%
Average age of employees	53 years	53 years	52 years	52 years
Average length of service at INAO	15 years	14 years	13 years	12 years
3 year work experience at INAO	91%	87%	94%	90%

A diverse educational background

At year-end 2013 over 85% of the INAO staff had a university degree, many holding a master's degree. The majority had an degree in business administration and several a degree in law, political science, library science or the humanities. Furthermore, there were five chartered accountants and three had certification in internal auditing (CIA). One of them is also a Certified Government Auditing Professional (CGAP), and another has certification in IT auditing (Certified Information Systems Auditor – CISA).

Continuing education and training

The INAO endeavours to ensure that the staff maintain and strengthen their professional abilities through continuing education and retraining. To this end employees are able to attend a range of courses in conjunction with their work. The INAO does also enter into agreements with its employees concerning long-term studies, for instance certification studies for chartered accountants, accreditation studies for internal auditing certification, and university studies while employed.

Performance measurements – service dimension

The INAO evaluates its performance regularly and reports selected evaluation results in its annual report. The agency's strategy map contains a total of 10 key goals: two in the service dimension, three in the procedures dimension, three in the human resources dimension and two in the finances dimension. The service goals are on the one hand to "promote reform in government-run operations" and on the other hand to "provide reliable and useful information". The following table shows how these goals are defined.

The INAO's service goals	
Promote reform in government-run operations	The INAO endeavours to promote reform in the financial management and performance of government bodies and other entities that receive contributions from the Treasury
Provide reliable and useful information	The INAO endeavours to provide reliable and useful information concerning financial statements, financial management and the performance of government bodies and other entities that receive contributions from the Treasury

The Office's performance indicators total 30, from two to four for each key goal. These indicators show whether or how well the goals are reached at any particular time. Some are relatively easy to use, e.g. involve the counting of some form of units or products. Others require a bit more effort, e.g. a number of indicators are based on examining the attitudes of the employees or "clients" of the Office. In addition to this the scorecard lays down criteria about performance, i.e. which values on each indicator the Office expects to achieve as a minimum, or considers desirable or acceptable.

30 performance indicators in total

The service dimension consists in a total of seven indicators, four for the goal "contribute to reform in government-run operations" and two for the goal "to provide reliable and useful information". Three of the five indicators for the first mentioned goal are based on a survey among permanent secretaries of ministries and heads of government organisations and two consist in a study of the reaction to recommendations that have been presented in the Office's reports. Both indicators for the latter goal are based on an attitude survey taken among the regular members and observers of the Budget Committee and Constitutional and Supervisory Committee. These are the committees of the Althingi that formally discuss the reports issued by the Office. The following table shows performance indicators in the service dimension.

Seven indicators in the service dimension

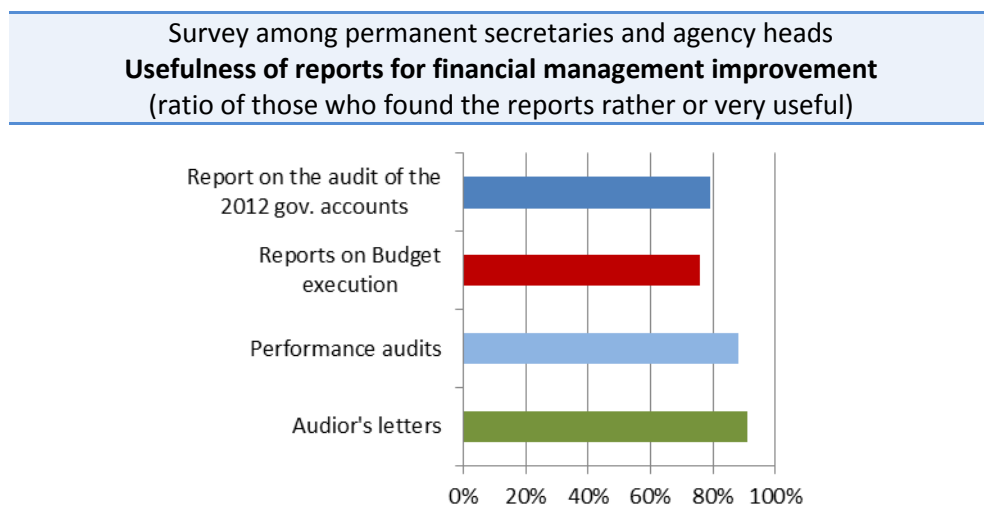
Performance indicators in the service dimension	
Key goals	Indicators
Promote reform in government-run operations	Response to financial audit recommendations
	Response to the performance audit recommendations
	Evaluation by managers of the usefulness of reports on the execution of the Budget
	Evaluation by the managers of the usefulness of financial audit reports
Provide reliable and useful information	Evaluation by managers of the usefulness of performance audit reports
	Evaluation by MPs of the reliability of reports
	Evaluation by MPs of the usefulness of reports in the monitoring of the executive branch

Survey among permanent secretaries and agency heads

The INAO surveyed the attitude of permanent secretaries of ministries and heads of agencies in February 2014. The survey included 187 persons and the response rate was approximately 83%. The survey responders answered different questions based on the nature of their relations with the INAO in 2013. Most of the responders were asked about their attitude regarding auditor's letters (reports on audit findings) which the INAO sends out to them following the completion of the annual financial audit. Only a part of the responders were asked about their attitude regarding performance audits, i.e. only the managers of the ministries and agencies which the performance audits of 2013 pertained to. In the same manner only a part of the responders were asked about their attitude to the Office's reports on the execution of the budget and the report on the auditing of the 2012 central government accounts (published in October 2013).

Usefulness of the reports

The responders were asked how useful the reports and auditor's letters were for improving financial management. A total of 142 replied to the question how useful auditor's letters were in improving the accounting and financial management, 8 answered the question how useful the performance audits had been in improving performance, 23 answered the question how useful reports about the execution of the budget had been in improving the financial management and 15 answered the question about how useful the report on the audit of the 2012 central government accounts had been for improving financial management. Four answer options were given: very useful, rather useful, of rather little use and of very little use. The ratio of those who said the reports had been rather useful or very useful can be seen in the following chart.



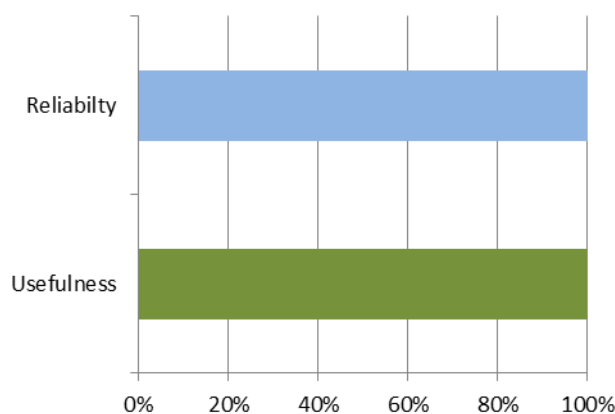
Survey among the regular members and observers of the Budget Committee

The INAO aims that at least 70% of the responders in the survey among the permanent secretaries of the ministries and the heads of agencies will find the reports and auditor's letters to be very useful or rather useful for making improvements. It is now apparent that this performance criterion was reached in 2013.

The Budget Committee discusses the reports by the INAO regarding the execution of the Budget and the audit of the central government accounts but the Constitutional and Supervisory Committee discusses other reports issued by the Office, including

performance audits. A survey made among regular members and observers of the Budget Committee posed the question how reliable the INAO's reports on the execution of the Budget and the audit of the central government accounts were. Also, how useful these reports were for the committee's monitoring of the executive branch. The survey covered a total of ten individuals and of these eight responded by submitting answers. As in the survey among managers four answer options were provided. It turned out that all the responders found the reports to be either very or rather reliable and very or rather useful for the committee's monitoring of the executive branch.

Survey among regular members and observers of the Budget Committee
Reliability and usefulness of the INAO's reports
 (ratio of those who found the reports rather or very reliable and useful)

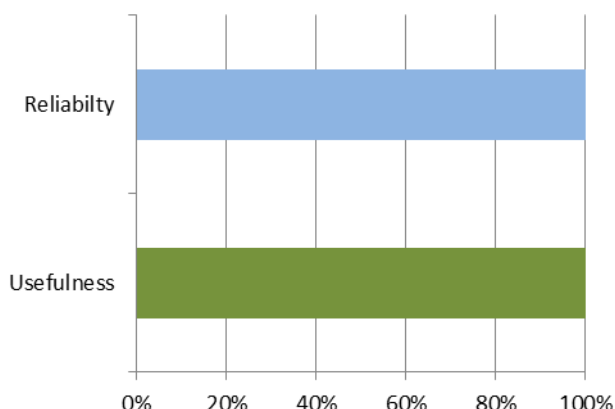


The INAO aims at reaching a level where at least 70% of responders in a survey among the regular members and observers of the Budget Committee find the Office's reports very or rather reliable and very or rather useful for the committee's monitoring of the executive branch. It is apparent that this performance criterion was reached in 2013.

In a survey among regular members and observers of the Constitutional and Supervisory Committee (CSC) one of the questions asked was how reliable the INAO's performance audits were and how useful they were in the committee's monitoring of the executive branch. The survey covered nine individuals and of these six responded by submitting answers. Similar to the earlier mentioned surveys four answer options were provided. It turned out that all the responders found the audits to be either very or rather reliable and very or rather useful for the committee's monitoring of the executive branch.

[Survey among regular members and observers of the CSC](#)

Survey among the regular members and observers of CSC
Reliability and usefulness of INAO's performance audits
 (ratio of those who found the reports rather or very reliable and useful)



The INAO aims at reaching a level where at least 70% of responders in a survey among the regular members and observers of the CSC find the Office's performance audits very or rather reliable and very or rather useful for the committee's monitoring of the executive branch. It is apparent that this performance criterion was reached in 2013.

One of the methods applied by the INAO to measure its performance is by examining the response from the authorities and public bodies to the recommendations stated in financial audit reports and performance audit reports. The reports from the financial audits (auditor's letters) are usually followed up after approximately one year from when they are drawn up. From a total of 85 auditor's letters that were drawn up in 2012 (for the 2011 audit) 43 contained recommendations regarding accounting, financial statements, internal control and/or other aspects of financial management. In total there were 90 recommendations and of these 48 had been fully or partly implemented in 2013 which is more than 53%.

Follow-up on
 recommendations of
 financial audits

Follow-up on financial audits 2012 - 2013				
Year	Reports	Recommendations	Implemented in full or in part	Performance
2012	43 from 2011	98	52	53%
2013	43 from 2012	90	48	53%
Total	86	188	100	53%

The INAO aims at ensuring that at least 80% of the aggregate recommendations in the financial audits of each year have been implemented within one year of their issuance. Referring to the table above it is apparent that this performance criterion has not been attained during the past two years. In this regard it should however be kept in mind that the INAO does not control the response of ministries and agencies to its recommendations. The Office can only contribute to their acceptance by providing careful reasoning for them and by communicating them in an unambiguous manner.

Performance audits are normally followed up approximately three years after a report is issued. At that point it is checked how the response to the recommendations has been, whether they have been implemented fully or in part. In 2013 there were 10 performance audits from 2010 that were followed up on containing a total of 48 principal recommendations. Of these, the INAO considered that 27 had been implemented fully or in part but 21 recommendations were reaffirmed. A summary of the conclusions of the follow-up on performance audits from the past three years may be seen in the table below.

Follow-up on performance audits 2011–2013						
Year	Reports	Principal recommendations	Implemented in full or in part	Performance	Cancelled	Reiterated
2011	12 from 2006–9	89	68	76%		24
2012	5 from 2009	50	34	72%	3	13
2013	10 from 2010	48	27	56%		21
Total	27	187	129	69%	3	58

The INAO aims at ensuring that at least 80% of the aggregate recommendations in the performance audits of each year have been implemented within three years of their issuance. According to the table above, this performance criterion has not quite been achieved in recent years. But similar to what applies to recommendations of financial audits the INAO does not control the response to the recommendations of its performance audits. The Office can only contribute to their acceptance by careful reasoning and by communicating them in an unambiguous manner to the Althingi, the relevant authorities and other parties who may be of influence in this context, e.g. the media.

The following table shows in a summarised form the INAO's performance in the field of service in 2013. The colour green indicates that the evaluation was above the Office's performance criteria, i.e. the value level on the relevant indicator that the Office wishes to reach as a minimum. The colour yellow indicates that the evaluation was not far from the criterion but the colour red indicates that the evaluation was far from the criterion. In order for the Office to be considered to have reached a key goal then more than half of the relevant indicators must be green. As can be seen the INAO reached both its service goals in 2013.

The INAO reached its service goals in 2013

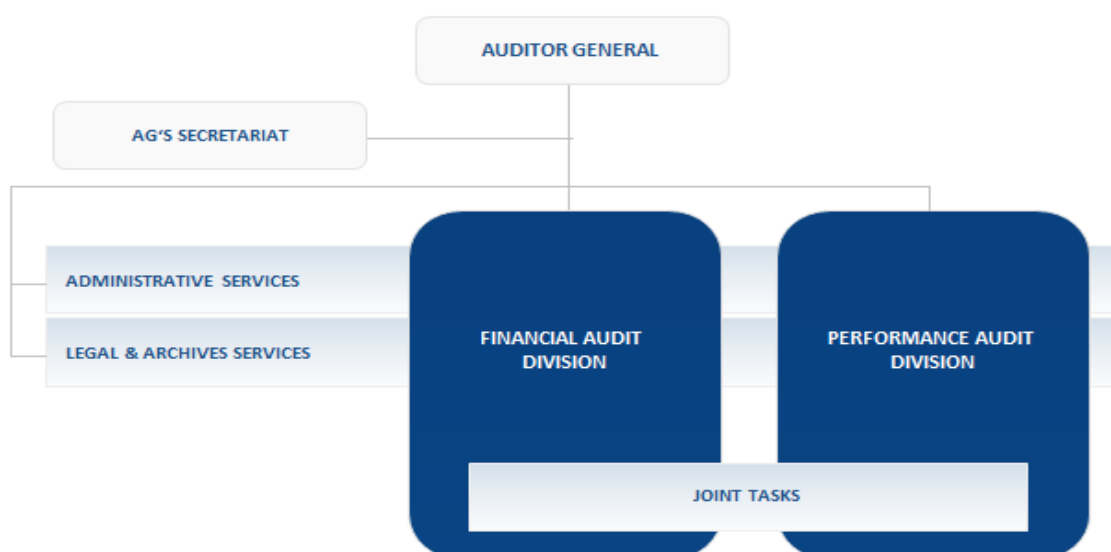
Performance of the INAO in 2013 (service)

Promote reform in government-run operations	Response to financial audit recommendations
	Response to the performance audit recommendations
	Evaluation by managers of the usefulness of reports on the execution of the Budget
	Evaluation by the managers of the usefulness of financial audit reports
	Evaluation by managers of the usefulness of performance audit reports
Provide reliable and useful information	Evaluation by MPs of the reliability of reports
	Evaluation by MPs of the usefulness of reports in the monitoring of the executive branch

Internal organisation

The INAO's current organisational chart came into effect on 1 January 2014. There are two core divisions: the Financial Audit Division and the Performance Audit Division. The Financial Audit Division is responsible for carrying out financial audits and related tasks in accordance with Article 8 of the National Audit Act, while the Performance Audit Division is responsible for carrying out performance audits and related tasks in accordance with Article 9 of the same Act. In addition, there are two support divisions responsible for diverse centralised tasks and for providing services to the main divisions: Administrative Services and Legal and Archive Services. Furthermore the AG's Secretariat covers a range of tasks involving public administration monitoring, monitoring the execution of the Government Budget, communications, international relations and assisting the Auditor General. Each core division is managed by a Director, and under him are Assistant Directors guiding the work of auditors, four in the Financial Audit Division and two in the Performance Audit Division. The Director of the Financial Audit Division is Ingi K Magnusson and the Director of the Performance Audit Division is Kristín Kalmansdóttir. Chief Attorney at Law and Deputy Auditor General is Lárus Ögmundsson, Director of Administrative Services is Eythór Borgthórsson, and Director of the AG's Secretariat is Jón Loftur Björnsson.

Two core divisions,
two support
divisions and the
AG's Secretariat



Financial Auditing

Regular financial auditing of government agencies and enterprises is the most comprehensive of the tasks engaged in by the INAO. In 2013 approximately 52% of active man-hours used by the Office were financial auditing engagements. At year-end the staff at Financial Audit Division numbered a total of 21, of these there were 10 females and 11 males, for 21 full time equivalent positions. The number of employees increased by one during the year as of year-end 2012 but it should be mentioned that the number of employees was reduced by three during that year.

The INAO audits annually the central government accounts and the accounts of ministries, agencies, funds and other parties where the cost or loss is paid 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 financial position in accordance with generally accepted accounting principles.
- ✓ That internal controls are examined to ascertain whether they assure adequate results.
- ✓ That accounts are in accordance with Budget authorisations, the Supplementary Budget or other applicable laws, lawful instructions, business practices and service contracts.
- ✓ That the reliability of key indicators on the scope and results of the operation of public bodies is examined and certified, if such indicators are published with the annual accounts.

Account is taken of the National Audit Act, the Auditors' Act and international auditing standards (ISSAIs and ISAs).

Every year the INAO sends to the Althingi and publishes an official report on the audit of the central government accounts. This way an account will also be given of the principle conclusions of the financial audit of government bodies as the case may be. Auditor's letters that are sent to individual agencies are not made public but the Budget Committee of the Althingi receives a copy of them. The report on the financial audit for 2012 (*Audit of the 2012 Central Government Accounts*) was published in October 2013.

The Budget Committee receives a copy of the auditor's letters

In 2013 five foreign specialists conducted a peer review of the INAO's financial audit practice. The main conclusion was that the Office is doing a good job in this area and that it is well on the way to adopt the International Standards of Supreme Audit Institutions (ISSAIs), but is not there yet.

Assessing whether statements give a true and fair view

Financial auditing of the government is very versatile, ranging from auditing simple financial statements of public bodies belonging to Group A of the central government accounts to the auditing of complex financial statements of limited companies owned by the state. The financial statements of Group A agencies are relatively simple and there are few estimated items and financial statement complexities. The reason for this is that investments and asset acquisitions are charged to the year in which they take place, pension obligations are not recorded in the financial statements of individual agencies and accrued holiday allowance is not registered. On the other hand various special principles applying to the state that need to be taken into account during the audit. In addition, many Group A agencies are large with complex operations which requires extensive audit measures. There are also funds with substantial obligations attached to them and a diverse range of contribution items.

The Minister of Finance and Economic Affairs recently introduced a bill in the Althingi for an act on public finances that will replace the current Government Financial Reporting Act. This bill proposes the adoption of International Public Sector Accounting Standards (IPSAS) for the public sector in Iceland. These standards impose heavier requirements for the financial statements of public bodies than now is the case. Their introduction will have a substantial impact on the conduct of financial audits. It is to be expected that following the introduction of the IPSAS, if that happens, then more time will be spent on audits by individual agencies and by the Treasury as a whole than has been the case up until the present. The act also presumes that the internal audit by ministries and government agencies will be strengthened. The INAO considers this to be very important.

Audits will be more time-consuming after the introduction of the IPSAS



The Financial Audit Division staff takes care of financial audits of government bodies and related tasks.

Evaluation of internal controls and compliance audit

As stated earlier, government financial auditing includes examining the internal controls of ministries, public bodies and state-owned enterprises. The term *internal*

control means diverse measures and actions intended to encourage successful and efficient operations; safeguard assets, valuables and sensitive data; provide trustworthy financial information; and ensure that operations comply with laws and regulations. In 2011 the INAO issued guidelines on documentation of internal controls for Group A entities.

Government financial auditing also entails checking whether financial statements and financial management is in compliance with laws and regulations. This entails examining the compliance status of government agencies and undertakings with respect to laws, regulations, codes of conduct, good management practices and other accepted procedures.

Selection of auditing subjects in 2013

The central government accounts consist of over 450 budgetary items in Group A of the Treasury in addition to information on the financial statements of public bodies in Groups B to E. Because of the understaffing at the INAO the Office is not in a position to audit all these items and parties prior to the issuing of the central government accounts (June). Therefore the Office needs to select carefully every year those items that will be audited. In 2013 the INAO and audit firms that are engaged on behalf of the Office audited a total of 158 account items and entities in Group A (i.e. for the accounting year 2012).

The INAO audited 158 account items in Group A

Selection of items and entities to be audited is based on risk assessment where several different risk factors are taken into consideration. Usually the principal focus is on auditing the Budget items that are largest in scope because they are more important than the smaller items with respect to whether the central government accounts will be considered to present a true and fair view of the operation and financial position of the Treasury as a whole. On the other hand the financial scope of many items is rather small. Thus there are approximately 278 items that represent expenditure that is less than ISK 500m each. The combined expenditure under these items only amount to approximately 10% of the total expenditure of the Treasury.

The INAO intends to audit all budgetary items no less frequently than every third year. Because of the limited funds and manpower of the Office as well as the emphasis placed on auditing the large items it may well be that more than three years will pass between the audits of smaller items. The risk of this happening has increased in recent years because of the reduction of the number of staff. The plan is to reevaluate the risk assessment of the Office taking into consideration the conclusions of the international peer review (see Auditor General's Introduction, page 4) in order to contribute to reaching the aforementioned goal.

Reevaluation of risk assessment based on peer review results

Adoption of international standards (ISSAIs)

The INAO is committed to following international standards that apply to the Office's activities. In 2011, the Office began adopting the International Standards of Supreme Audit Institutions (ISSAIs). The plan is to complete the adoption process in 2014 taking into consideration the conclusions of the aforementioned international peer review.

Based on the best know-how in the field of government auditing

IT audits

Part of the state's financial auditing involves examining whether the IT systems of public bodies and enterprises are secure and perform as expected. Account is taken of the National Audit Act, the standards and guidelines of INTOSAI, as well as the guidelines of the Icelandic Financial Supervisory Authority (FME) regarding the operation of the IT systems of regulated entities.

The results of IT audits are presented in reports that are sent only to the public bodies being audited and to the relevant ministry, as these reports regularly include information on sensitive security issues.

It is important that the supervision of government IT systems is functioning and effective as huge funds are transmitted through these systems, e.g. pension payments, salary payments and various benefits. Errors in these systems can lead to considerable costs for the Treasury. The owners of these systems need to have regular security audits and audits of the internal control mechanisms that apply. The INAO has urged relevant parties that the Ministry of Finance and Economic Affairs take a lead in coordinating an audit of the principal revenue and expenditure systems of the state in order to ensure that these perform as expected and so that the greatest level of security is applied.

Regular security
audits are necessary

Performance Auditing

According to the National Audit Act (no. 86/1997) performance auditing consist in

examining the managing and utilisation of public funds, whether economy and efficiency is applied in the operation of agencies and enterprises owned by the state and whether current legislation is being enforced in this context.

The National Audit Act states furthermore that the Office shall report to the relevant public authorities on the outcome of a performance audit, draw their attention towards what it considers has gone wrong in the operation and point out to them any aspects which have to be checked with a view to improvement.

To point out opportunities for improvement

According to INTOSAI standards (ISSAI 300 and 3000) performance audit aims at assessing whether the operation in question is economic, efficient and effective. This definition of performance audit is stated in the explanatory statement that accompanied the bill that was passed as the National Audit Act in 1997. The explanatory statement contains a more detailed definition of the content of a performance audit than appears in Article 9 of the Act.

In 2013 a little over a fifth (21%) of the total number of active man-hours at the INAO were used for performance auditing. This is a little lower ratio than the previous year and can be explained by employee turnover. The employees of the Performance Audit Division numbered 10 at year end 2012, two employees resigned in 2013 and one was hired. At year end the number of Performance Audit Division employees were nine in total or one less than the previous year.

The INAO's Performance Audit Division completed a total of 27 official reports in 2013 which is the same number as in recent years. Of these there were 13 main audits and 14 follow-up audits.

27 reports in 2013

Requested audits and own initiative

According to law, the INAO may carry out performance audits on all bodies that finance their activities with public money, bodies in which the State owns at least half of the shares and bodies that enjoy contributions from the State Treasury for the services they provide. Most audits are performed at the initiative of the Office based on analyses of either their financial or social importance or risks in their operation and operating environment. Generally only a part of audits is carried out at the request of the Althingi or the ministries. In all instances the INAO is responsible for delimiting the subject matter, deciding on methods, defining focus and presenting the results. The great majority of all performance audits carried out by the INAO that were completed in 2013 were audits carried out at the initiative of INAO.



The staff of the Performance Audit Division who conduct performance audits of public bodies and related tasks

Work procedure of performance audits

The INAO generally divides its performance audits into three main parts: *pre-study*, *main audit and follow-up*. Pre-studies are carried out in an effort to assess the possibility and justification of initiating a performance audit. If a pre-study reveals that a main audit is premature or that its expected benefits will be less than costs, the main audit is not carried out. If a pre-study reveals that there would be significant benefits from a main audit, an audit plan is prepared containing the questions that the main audit is expected to answer, the scope is delimited, methods are defined and the time and manpower necessary to carry out the audit are specified. In main audits, all available data that is of importance is collected to answer the audit questions. Such data is analysed, assessed and interpreted objectively and professionally. Thereafter the conclusions are formulated and, as appropriate, also the recommendations for improvements. After the draft report has been reviewed in-house it is sent to the public body and/or ministry for review and formal reporting. The final report is later published and sent to the parties involved. Approximately three years after the completion of the main audit, the results of the audit must be assessed in a follow-up audit, i.e. the response by the public body, ministry or Althingi to the recommendations of the INAO. The results of this audit are published and sent to the parties involved. Such an audit may result in a repeated follow-up audit if the response to the recommendations is not satisfactory. The evaluation of a performance audit is based *i.a.* on the conclusions of the follow-up.

1. Pre-study
2. Main audit
3. Follow-up

The Performance Audit Division's operating plan

The Performance Audit Division operates according to a three-year operating plan that is revised annually. The current operating plan is applicable for the period 2013–2015. It is based on an assessment of the risks involved in the activities and operations of the government administration, i.e. where a risk is perceived that the operation is not as economic, efficient and effective as expected. When preparing the schedule the following aspects were in particular taken account of: the changes that have taken place in government operations in recent years, the focus by government

Risk assessment

authorities on public finances 2000–2015, budget appropriations, the central government accounts 2011, the results of an employee survey in 2012 and an analysis of the financial position of individual budget items. Audits will, as during recent years, primarily focus on issues that are under the auspices of the largest ministries with the largest budgets: the Ministry of Welfare, the Ministry of Education, Science and Culture, the Ministry of Finance and Economic Affairs and the Ministry of Internal Affairs. The reason for this is that approximately 80% of the budget appropriations for 2013 were allocated to issues that are under the auspices of these ministries and to the central administration of most of the government agencies. The issues relating to other ministries will however also be examined if there is a reason to do so.

Other monitoring tasks and activities

Other monitoring tasks 9% of the operation

In 2013 a total of 9% of the total number of active man-hours at the Office were used for monitoring tasks other than financial audit or performance audit. This is a similar ratio as in the previous year. These included monitoring the execution of the Budget, monitoring the finances of political parties and political candidates and monitoring the finances of chartered institutions (foundations).

Central admin. and support services 18% of the operation

Approximately 18% of the total number of active man-hours were used for the central administration and support services. This includes the work of the Auditor General, the general management of the Office, canteen, reception and computer services for employees. This also includes legal consultancy services to the Auditor General and the Office's divisions, internal and external communications, publications and international relations. In total, the employees responsible for support services and monitoring tasks other than financial auditing or performance auditing numbered 13 at year-end 2013.



The AG's Secretariat manages diverse monitoring of the central administration, monitoring the execution of the Budget, international relations, external communication and provide support for the Auditor General

Monitoring the execution of the Budget

In addition to regular financial auditing, the INAO is responsible for monitoring the execution of the Government Budget in accordance with the National Audit Act. 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. In 2013, the INAO released a total of three reports with the conclusions of this monitoring.

Monitoring the finances of political parties and political candidates

The INAO is responsible for monitoring the finances of political parties and candidates in accordance with Act No. 162/2006. The Act requires political parties to submit their consolidated accounts, i.e. annual financial statements for all units under their responsibility, to the INAO, which subsequently publishes a summary thereof. Moreover, the Act obligates candidates standing for personal election to submit a statement of income and costs relating to the election campaign no later than three months after the elections. If, however, the total cost of the candidate does not exceed ISK 400,000, it is sufficient for the candidate to submit a written statement thereto. The INAO subsequently publishes a summary of such statements. The accounts of political parties must be audited and certified by a public accountant, and the accounts of a candidate must be endorsed by an auditor or an examiner familiar with accounting practices. Neither political parties nor candidates are permitted, with some exceptions, however, to accept contributions from legal entities or private persons that exceed ISK 400,000 per year. The financial statements submitted by political parties and the accounts submitted by candidates must specify the names of all legal entities that have made contributions, irrespective of the amount contributed. The names of private persons who have contributed more than ISK 200,000 must also be stated.

Maximum contribution ISK 400 thousand per year

According to the Act, the political parties are given until 1 October each year to submit the statements for the previous year to the INAO. A total of 12 political organisations submitted their statements for 2012 prior to the expiration of the time limit. The INAO published a summary of the statements on its website after the Office had reviewed them.

Under Article 8 of the Act the INAO must issue guidelines for the accounting of political organisations. In October of 2013 the Office published new guidelines stipulating that the elections related expenditure of political organisations shall be stated separately in the annual accounts. This refers to expenditure that is directly linked to parliamentary or municipal elections. There is an additional requirement that the accompanying notes indicate how this cost was divided between items such as wages and salaries, advertisements, presentations, travel expenses, contracted services etc. The new guidelines apply for the first time for the year 2013.

New guidelines for the accounting of political parties

Parliamentary elections to the Althingi were held on 27. April 2013. In October 2013 a letter was sent to the representatives of the political organisations reminding them of the candidates' duty to provide information. According to the Act the candidates must return the financial statements with the audit opinion no later than three months from the date of the primary elections. By the end of April 2013 a total of 30 candidates had returned the financial statements and 141 had returned a report. Summaries from the financial statements of the candidates were published on the Office's website



The staff of Legal and Archive Services who manage legal tasks, archiving, monitoring of the finances of political activities and funds and chartered organisations.

Monitoring chartered institutions (foundations)

The INAO monitors the finances of a total of 725 entities that operate under Act No. 19/1988 on funds and institutions operating according to an approved charter. Specifically, these are non-profit organisations (foundations) that do not engage in business operations, such as various sponsorship and memorial funds. These entities are under obligation to send their annual financial statements to the INAO, which is responsible for monitoring that they do so. Furthermore the Office has a responsibility to keep a register of the revenues and expenses of these entities including notes to the submitted statements. The Saudárkrókur District Commissioner keeps a register of funds and organisations with approved charters, what is referred to as the registry of funds. If no statements have been submitted for one calendar year, or if the statements prove to be inadequate in some manner, the relevant district commissioner at the behest of INAO may decide to ask the police to investigate the finances of the fund in question.

A total of 725 funds and organisations

According to the Act the individual who is responsible for a fund or an organisation with an approved charter must no later than 30 June of each year submit the annual statements to the INAO. As of 1 July 2013 only 469 entities from a total of 725 then registered had submitted their annual financial statements for the operating year 2011. By year end 2013 a total of 508 entities had submitted their statements. The INAO sends a letter and, as the case may be, an e-mail to the guardians of the funds and organisations that have not submitted the annual statements in time, wherein they are encouraged to submit the statements. However this is not always sufficient and the Office will then report this to the Saudárkrókur District Commissioner.

By year end 508 of 725 entities had submitted financial statements

Monitoring the financial statements of cemeteries and parishes

According to Act No. 36/1993 on cemeteries, burial and cremation, the boards of cemeteries are obligated to submit their financial statements to the INAO. The Office reviews the statements, checks if audit opinions are in compliance and balances the totals. It then keeps a record where information from the statements of cemeteries on the operation and finances can be accessed. The boards of the cemeteries are obligated to submit the financial statements from the previous year to the INAO prior to 1 June of each year. At the beginning of November 2013 the Office had received the statements from 198 cemeteries from a total of 243. In view of the poor return during recent years the INAO has repeatedly encouraged the relevant parties to take a look at possibilities for further mergers of cemetery boards.

According to an agreement with the national church the Bishop's Office sends the parish financial statements to the INAO which reviews them, and checks if the audit opinions are in compliance and balances the totals. It also keeps a file where information from the statements of the parishes on the operation and finances can be accessed. By November 2013 the INAO had received the financial statements of 241 parishes for 2012 of a total of 272 operating parishes.

By November 241 parish of 272 had submitted their statements

Legal opinions

Every year, the INAO must discuss or provide its opinion on various legal questions relating to the Office's role and function or that relate to state finances, administration of property or the central government administration. These are generally prepared in connection with individual engagements related to financial auditing and performance auditing but legal questions are also studied independently, e.g. if they concern the role or the investigative powers of the INAO.

Archives

The policy of the INAO concerning archives involves that the laws and regulations on the National Archives be complied with regarding the recording, preservation and destruction of documents. The Office has an electronic file system where a total of 1,400 cases had been recorded by year end 2013. All data that account for the progression of a case and result in the conclusion of that case are saved in the system, in addition to the work papers as the case may be. In 2013 a new file centre for the Office was adopted as well as a new archives store.

1,400 cases recorded in the file system by year end

Publications and external communications

As the INAO operates on behalf of the Althingi and is part of Althingi's monitoring of the executive branch its reports are mainly tailored to the needs of the Althingi or that of individual parliamentary committees. At the same time the Office endeavours to tailor its reports to the needs of ministries and agencies as recommendations are generally addressed to these entities.

The communication policy of the INAO is in accordance with INTOSAI's Principles of Transparency and Accountability (ISSAI 20). According to the policy, a dynamic and

The INAO's communication policy in accordance with ISSAI 20

high-quality external publication of information is one of the prerequisites of the INAO's ability to be able to fulfil its role and achieve results. It also states that the Office intends to take the initiative in the dissemination of information about its role and activities.

The INAO keeps a website where users can access all of its publications (www.rikisend.is). In 2013 there were close to 20 thousand visits to the website which is a similar number as in recent years. An effort is made to explain the main points of reports in an easily understood manner in news published on the website and sent to the media and other recipients who are registered on the Office's electronic mailing list. Every year the INAO staff replies to numerous enquiries from the press and the general public regarding the conclusions of individual audits, the role or the work procedures used by the Office.

International relations

Emphasis on good relations with foreign sister Offices

In order to ensure that the operation of the INAO 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 SAIs of the Nordic countries and is a member of INTOSAI and EUROSAI. Moreover, the INAO participates in the auditing of multinational bodies and associations which Iceland is a member of, such as EFTA.

In 2010–2012 the INAO was involved in negotiations on Iceland's possible accession to the European Union. A representative of the INAO was a member of the negotiation team on financial affairs that operated under the auspices of Iceland's main negotiation committee. The accession negotiations have now been suspended.

A total of nine meetings and seminars abroad in 2013

The employees of the INAO attended a total of nine meetings and seminars abroad in 2013 which is a significantly smaller number than in recent years. Approximately half the number of these meetings were related to the work of the EFTA Board of Auditors (EBOA) and the auditing of the use of EEA Grants. Ingi K Magnússon, Director of the Auditing Department, represents the INAO Office's participation in EBOA and has also participated in the committee's working group which audits the EEA Grants. Other meetings and seminars were related to Nordic co-operation and the work of EUROSAI. Because of cuts in budget allocations for the INAO the Office has in recent years only participated in the work of one EUROSAI working group (Task force for Audit & Ethics). The representative of the INAO in the group attended one of the group's meetings in Dubrovnik in April. One other staff member attended the conference of young employees of supreme audit institutions within EUROSAI (Young EUROSAI – YES) in The Hague in November. Also that same employee attended a seminar on performance auditing held by the European Commission in Brussels in April. Finally one employee attended a meeting of a Nordic working group which was organised in order to revise and improve the rules pertaining to the auditing of the Nordic Council and pan-Nordic institutions. That meeting was held in Oslo in January.

The annual meeting of the national audit offices of the Nordic countries was held in Reykjavík in June 2013. The meeting approved a proposal to change important aspects of the offices' cooperation (see also Auditor General's Introduction, page 5).

Annual meeting of
Nordic Auditors
General

Representatives of foreign sister offices, international organisations or foreign government officials frequently visit the INAO either to study the activities of the Office or because of cooperation projects. Last year specialists from the national audit offices of Holland, Norway and Sweden visited Iceland a total of three times because of the international peer review that was performed of the Office's financial audit practice. In September of 2013 the meeting of the EFTA Board of Auditors (EBOA) was held in Reykjavík.

Financial Statements 2013

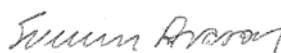
Report of the Management and Endorsment of the Financial Statements

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 2013, the Office's operations generated a surplus of ISK 29,6 million. According to the Balance Sheet, the assets of the Office amounted to ISK 41,1 million, liabilities amounted to ISK 4,5 million, and equity amounted to ISK 36,6 million at year-end 2013.

The Auditor General and the Financial Manager certify the Financial Statements of the National Audit Office for the year 2013 with their signatures.

The Icelandic National Audit Office, 28 February 2014



Sveinn Arason, CPA
Auditor General



Eythor Borgthorsson
Financial Manager

Auditor's Report

To the Presidential Committee of the Icelandic Parliament

I have audited the Financial Statements of the Icelandic National Audit Office for the year 2013. The Financial Statements contain the management's statement, a Profit and Loss Account, a Balance Sheet, a Statement of Cash Flows, Accounting Policy and Notes.

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 2013, its Balance Sheet as of 31 December 2013 and change in cash during the year 2013, in accordance with laws and regulations and generally accepted accounting principles for Group A entities.

Reykjavik, 28 February 2014



Gunnar Sigurdsson
Chartered Accountant

Profit and loss Account 2013

	2013	2012
Operating revenues		
Sale of services	47.774.161	42.383.145
Other income	42.670	2.215
	<u>47.816.831</u>	<u>42.385.360</u>
Operating expenses		
Salaries and related expenses	392.622.753	394.807.410
Administrative expenses	10.413.808	10.463.859
Meeting and travel cost	12.086.603	11.728.085
Expert services	17.556.482	48.417.716
Operations of equipments	1.218.648	1.353.506
Other operating expenses	5.651.970	5.334.587
Housing	28.242.671	26.870.268
Operation of vehicles	511.056	413.425
Grants	800.000	700.000
	<u>469.103.991</u>	<u>500.088.856</u>
Purchased assets	3.222.383	1.765.335
	<u>472.326.374</u>	<u>501.854.191</u>
Operating profit (-loss) before Treasury contribution	(424.509.543)	(459.468.831)
Treasury Contribution	<u>454.100.000</u>	<u>430.400.000</u>
Profit for the year	<u>29.590.457</u>	<u>(29.068.831)</u>

Balance Sheet, 31. December 2013 (ISK)

	2013	2012
Assets		
Current assets		
Treasury	31.298.753	4.457.321
Accounts receivable	9.322.444	7.703.117
Cash and cash equivalents	524.634	135.410
	<u>41.145.831</u>	<u>12.295.848</u>
Total assets	<u><u>41.145.831</u></u>	<u><u>12.295.848</u></u>
Equity and Liabilities		
Equity		
<i>Equity:</i>		
Equity at the beginning of the year	6.999.881	36.068.712
Profit for the year	29.590.457	(29.068.831)
Equity	<u>36.590.338</u>	<u>6.999.881</u>
Liabilities		
Current liabilities		
Accounts payable	4.555.493	5.295.967
Liabilities	<u>4.555.493</u>	<u>5.295.967</u>
Total equity and liabilities	<u><u>41.145.831</u></u>	<u><u>12.295.848</u></u>

Cash Flow Statement 2013

	2013	2012
Cash flow from operations		
<i>Cash flow from operating activities:</i>		
Profit.....	<u>29.590.457</u>	<u>(29.068.831)</u>
Cash flow from operating activities	<u>29.590.457</u>	<u>(29.068.831)</u>
<i>Changes in current assets and liabilities:</i>		
Accounts receivable, decrease / (increase).....	<u>(1.619.327)</u>	4.541.270
Accounts payable, (decrease) / increase.....	<u>(740.474)</u>	<u>(5.731.326)</u>
	<u>(2.359.801)</u>	<u>(1.190.056)</u>
Net cash provided by operating activities	27.230.656	(30.258.887)
Cash flow from financial activities		
<i>Changes in balance with the Treasury:</i>		
Treasury contribution.....	<u>(454.100.000)</u>	<u>(430.400.000)</u>
Received from the Treasury.....	<u>427.258.568</u>	<u>460.634.728</u>
Net cash from financing activity	<u>(26.841.432)</u>	<u>30.234.728</u>
Net increase in cash and cash equivalents.....	389.224	(24.159)
Cash and cash equivalents at the beginning of the year.....	<u>135.410</u>	<u>159.569</u>
Cash and cash equivalents at the end of the year	<u>524.634</u>	<u>135.410</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. 3/2006, 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.

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.

Notes

Budget and Operations

The Office's budget for 2013 anticipated similar activities as in the previous year. The Office's total budget was ISK 430,4 million.

Operating expenses less sale of services totalled ISK 459,5 million and were ISK 29,1 million more than budget. Operating expenses are specified as follows:

In ISK thousand	Initial	Total budget	Financial Statements	Differences
Sales of services	(44.200)	(44.200)	(47.817)	3.617
Salary and salary-related expenses	396.500	396.500	392.623	3.877
Other operating expenses	100.800	100.800	75.681	25.119
Tilfærslur	0	0	800	(800)
	453.100	453.100	421.287	31.813
Purchased assets	1.000	1.000	3.222	(2.222)
	454.100	454.100	424.509	29.591

Break-down in ISK thousand by type:

	2013	2012
Sales of services	(47.817)	(42.385)
101 Icelandic National Audit Office	469.104	500.089
601 Equipment	3.222	1.765
	424.509	459.469



The Icelandic National Audit Office – Brietartuni 7
PO Box 5350 – 125 Reykjavik
Telephone 569-7100
postur@rikisend.is – www.rikisendurskodun.is