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RÍKISENDURSKOÐUN
ICELANDIC NATIONAL AUDIT OFFICE

Icelandic National Audit Office

Annual Report 2003



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The Government Offices of Iceland between 1924 and 1930

Review by the Auditor General

ON THE CENTENARY of Icelandic Home Rule, it is befitting to recall that the audit of the Central Government Accounts was – for most of the past 100 years – in the hands of the Government Offices of Iceland. In 1874, the Danish King had presented Iceland with a Constitution vesting the Icelandic Parliament, the Althing, with legislative power in internal affairs, including budgetary authority. The first Icelandic Government Budget dates from 15 October 1875, and covered the budgetary years 1876 and 1877. Concurrently with these changes, the audit of the National Accounts – up until then performed by a Danish government office, the Kanselli, in Copenhagen – was transferred to Iceland. As of 1879, proxy audit, as it was then called, was an independent administrative function performed by a separate official until 1 February 1904, when the Government Offices of Iceland were established.

The audit of the National Accounts was, at first, in the hands of the staff members of Secretariat III of the new Government Offices, but in 1917 the audit function fell under the financial department, i.e. the Ministry of Finance. This structure was in place until 1931, when separate legislation on state accounting and the audit of the Central Government Accounts was enacted. The audit function was then separated from other activities of the Ministry of Finance, and a separate audit office was established under the management of the State Auditor General. However, the office was still under the direct authority of the Minister of Finance. The same structure was reaffirmed by the Act on the Government Offices of Iceland No. 73/1969. Thus, the National Audit Office was, in fact, a separate secretariat of the Ministry, governed by the Minister of Finance, from 1904 until 1987, when the Office was transferred under the authority of the Althing with Act No. 12/1986.

The first Icelandic auditor of the National Accounts – as the Central Government Accounts were then called – was economist and writer Indridi Einarsson. He was appointed in 1879 and served “on his own responsibility” until 1904, when he became a Commissioner and later Secretary General of Secretariat III of the Government Offices. In those times, and in fact many times since, some people appear to have believed that the Ministry of Finance held supervisory authority over other departments of the Government Offices. In his autobiography, Einarsson discloses that, soon after the Government Offices were established, its secretariats were given various appellations: “We used to call Secretariat III – now the Ministry of Finance – the commando bridge, or simply the bridge. It was the place where people were supposed to know, in a manner of speaking, the course on which the ship was set.” He relates that, one time, Minister Sigurdur Eggertz asked him in jest, “Revisor, whither the course now?” Einarsson leaned down towards the minister and whispered, “Straight to hell!” The minister laughed heartily. Now, as then, the Government Budget and Central Government Accounts

provide indications of where the national ship is heading, and how it is progressing. The role of the revisor and his relationship with the Government Offices has, on the other hand, changed substantially since the audit office was transferred under the Althing's central authority. Therefore, a long time has now passed since the Minister of Finance last asked about the ship's course. However, the main responsibility of the National Audit Office remains basically unchanged from that of its forerunner, i.e. to review Government finances and thus help the nation spend wisely. The Office performs this role by scrutinising the Treasury's accounts, auditing them, monitoring the use of budgetary appropriations, examining the treatment and use of public money, and making suggestions for improvement when needed.

The Office was exceptionally productive in the year 2003. It certified 370 annual accounts, and produced a total of 274 audit reports and audit letters. Also, 9 performance audits and 17 memoranda were carried out, in addition to 2 special publications. Much of this material is accessible on the Office's website. Interest in the material is evidently increasing, as the number of visits to the website more than doubled from 2002 to 2003.

A separate section of this Annual Report discusses various indicators of the Office's activities and performance during 2003, within the context of its objectives as specified in its publication *Balanced Scorecard of the Icelandic National Audit Office*. The section compares a number of aspects of the Office's activities to equivalent operations at its Nordic sister institutions. Such information and comparison is clearly a significant tool for performance assessment and improvement.

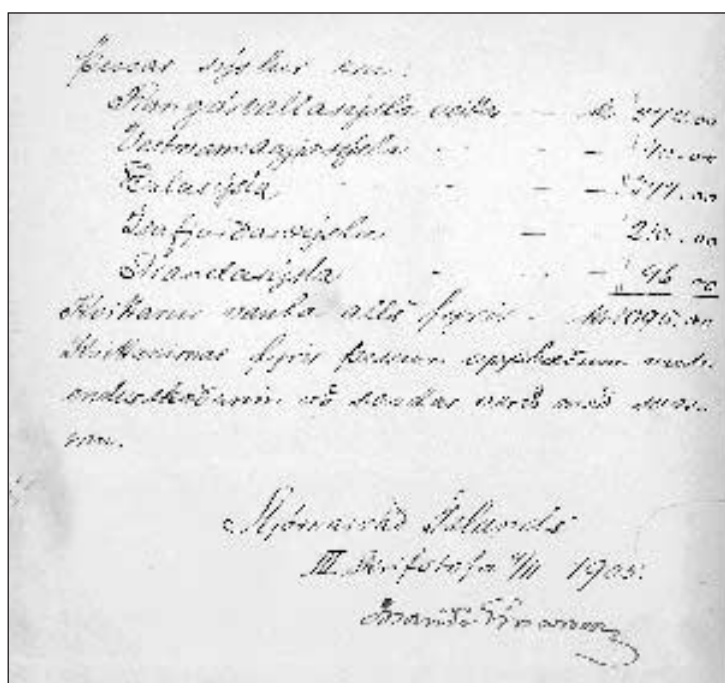
During the period 1999-2002, the Office's operating results were well within budget. But, in 2003, the situation took a turn for the worse, with the Office exceeding its budget by ISK 15 million, or 4.9%. At the start of 2004, various measures were taken to confront these financial difficulties. As a result, its output is expected to drop this year owing to necessary cost cutting.

Recently, the role and responsibility of auditors has come under public scrutiny in the wake of several large-scale accounting fraud cases, both in Iceland and abroad. Many poignant questions have arisen regarding the credibility of auditors, both professionally and financially, vis-à-vis their clients. Although serious cases of fraud have occurred in Iceland, they are not nearly on as large a scale as the cases reported abroad. Nonetheless, it is important for a discussion to take place, not only among auditors, but also among government authorities, regarding ways in which to ensure sufficient auditor independence, in order to secure the reliability and credibility of their certifications of annual accounts in the eyes of readers. Equally important for auditors and the public sector at large is for a respected and credible appraisal system to be in place regarding the professional competence of auditors, and for their independence to be not merely ostensible but genuine.

Sigurdur Thordarson

The role of the National Audit Office

THE NATIONAL AUDIT OFFICE'S main responsibilities are to audit the annual financial statements of the Icelandic Government and to inspect whether ministries, companies and funds use their financial resources in accordance with the Althing's instructions in the Government Budget, Supplementary Budgets and by other means. Also, the Office inspects the Government Budget's implementation, and assists parliamentary committees working on Government financial matters. Furthermore, the Office is authorised to conduct performance audits and environmental audits. In addition to checking the accuracy of financial statements of Government agencies and enterprises, the Office emphasises inspecting whether economy is ensured in operations, whether they are effective and whether they comply with the key objectives specified in law and regulations. Thus, the Office seeks to promote cost-effective and prudent spending of public money, and to ensure the efficiency and effectiveness of public administration.



From the Audit of the Cadastre Fund Accounts of 1904

The position and role of the National Audit Office has changed substantially during the past quarter-century. Between 1931, when the office of the State Auditor General was established, and 1987, the Office was under the authority of the Minister of Finance, and performed mostly conventional financial audits, i.e. audits of Government finances and the financial statements of public bodies. The entry into force of Act No. 12/1986 marked a transformation for the Office's organisation in that it became an independent

body operating under the auspices of Iceland's Parliament, the Althing. Thus, an effort was made to strengthen the legislator's regulatory position vis-à-vis the holders of executive power, and to ensure sufficient expert assistance for the legislator in the drafting of Government Budgets.

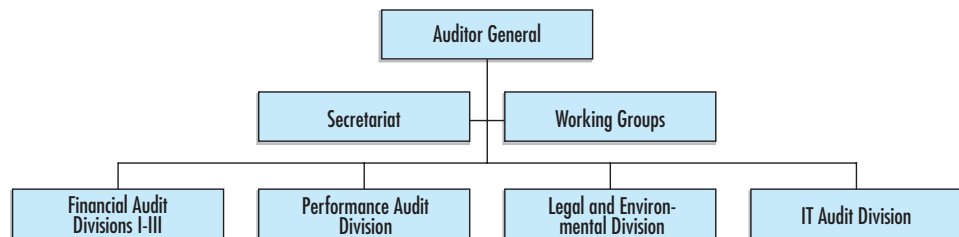
Act No. 12/1986 not only stipulates that the staff of the National Audit Office shall be completely independent of those Ministries and organisations where audits are being carried out, but also that the Office shall not be bound by instructions regarding specific aspects of their work. However, the Presidential Committee of the Althing may, either on its own initiative or in conformity with requests by Members of Parliament, call for reports from the Office on any specific examinations falling under the Office's mandate. In addition, the Office's sphere of activities was expanded considerably. As well as continuing its conventional financial auditing, the Office was now empowered to carry out performance audits of central government bodies, i.e. examine their treatment and use of public money. The Office should alert the authorities in question of any shortcomings in their activities and propose improvements. In fact, the Office had carried out such projects since the autumn of 1979, when it delivered its first performance audit on the Icelandic Maritime Administration.

The current National Audit Act No. 86/1997 further clarified this new area of activities, and stipulated that performance audit should cover whether economy and efficiency are ensured in the operations of public agencies and companies and whether applicable lawful instructions are complied with in this context. Also, the scope of financial audit was expanded substantially. Among other things, the Office was now expected to examine and endorse indicators on the activities and performance of public bodies reported in financial statements. Lastly, the Act contained a novel provision authorising the Office to examine government authorities' implementation of plans, legal instructions and obligations within the scope of environmental affairs. Thus, it is safe to say that the Office's regulatory function – the purpose of which is to improve the economy, efficiency and effectiveness of public administration – has expanded rapidly in the past few decades.

The changes listed above are, in some respects, attributable to international trends in audit practices and the endeavours of the legislator to monitor whether, and in what manner, ministries and central government bodies comply with legally prescribed requirements. At the same time, they are linked to important changes in public administration in Iceland and elsewhere during the closing decade of the twentieth century. Central government bodies and state enterprises now have wider scope to organise their operations according to needs and circumstances, although within budgetary limits. Also, they carry increased responsibility, among other things for improving their performance and achieving set goals. This has increased the need for checks and balances. In parallel with continuing its financial audit work and scrutiny of how well public bodies are achieving their goals, the National Audit Office has been assigned the role – in ever-increasing measure – of identifying opportunities for improvement in their management and operations.

Operations in 2003

Organisation chart and staff



THE ACTIVITIES OF THE NATIONAL AUDIT OFFICE are divided into seven divisions:

Financial Audit Divisions I-III perform all conventional financial audit work for central government bodies, and present their conclusions in the form of audit reports or letters. Also, Divisions I-III prepare a large number of annual accounts for state agencies, enterprises and funds. In addition, Division III has the role of inspecting public bodies' internal controls and risk assessment mechanisms. A summary of the activities of Divisions I-III during the year is provided in the National Audit Office's report *Audit of the Central Government Accounts*. A total of 28 people worked in Divisions I-III during 2003.

The Performance Audit Division handles various assessments of the administrative structures of central government agencies and enterprises. The Division focuses, in particular, on the use of public money, including whether it is spent in the manner laid down by the Althing. Results are normally presented in reports, which frequently contain suggestions for improvements aimed at the managers of agencies and the central public authorities. In 2003, the staff of the Performance Audit Division numbered 9.

The Legal and Environmental Division is partly a legal support unit for other divisions of the Office, in addition to handling the day-to-day management of state-owned funds and organisations operating under a confirmed charter. The conclusions of the Legal Division are commonly presented in the Office's reports and memoranda. In addition, the Office publishes independent reports on environmental audits. During 2003, 3 staff members worked in the Legal and Environmental Division.

The IT Audit Division contributes to the Office's audit work in mostly two ways. On the one hand, it provides expert guidance for state agencies and enterprises on how best to ensure the security of their IT systems. On the other hand, it examines security aspects of institutions. Also, the Division is responsible for the Office's IT systems. During 2003, there were 2 permanent employees of the IT Division.

The staff of *the Secretariat and Services Division* perform various duties relating to the day-to-day activities of the Office, including human resources management, secretarial work, archiving, telephone services, the publication of reports and memoranda, and food preparation. The staff of the Secretariat and Services Division number 8 in total.

At year-end 2003, the employees of the National Audit Office totalled 51. Four new employees were recruited during the year, one member of staff retired and another took a one-year unpaid holiday. Three staff members were on parental leave during some part of the year, and a number of other employees had less than a 100% appointment owing to study commitments or childbirth. As a result, the average number of full-time equivalent units was somewhat lower than indicated by the number of permanent employees, i.e. 49. This represents an increase of 4 full-time equivalent units from 2002.



*The National Audit Office operates directly under the auspices of the Althing.
Austurvöllur square shortly before 1930*

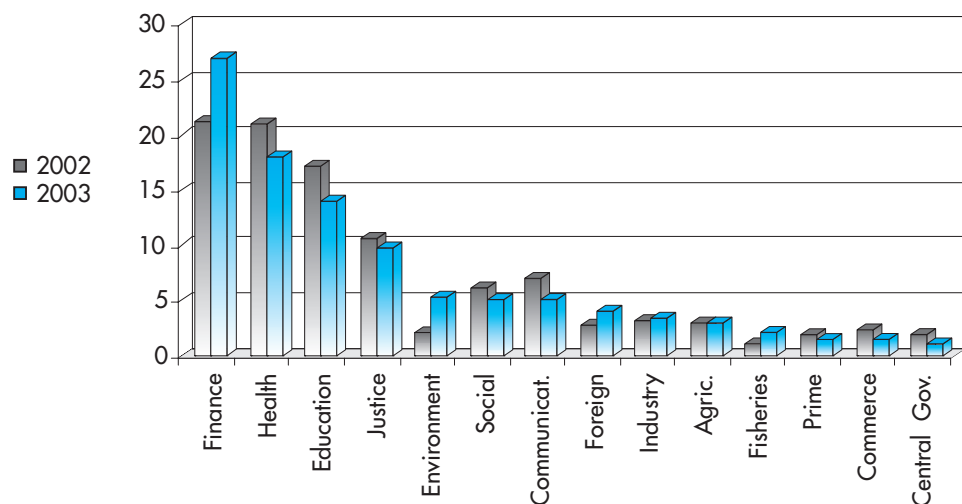
Of the Office's total of 51 permanent employees, 29 were men and 22 were women. The average age of employees was 46.5 years. 41 had a university degree, which corresponds to 80.4% of the staff. Most, or 26, held a degree in business administration, 5 were certified accountants, and there were 5 lawyers, 2 experts in public administration, 1 economist, 1 expert in the Icelandic language and 1 engineer. The average length of service of permanent employees was 9.6 years.

Performance during the year

DURING 2003, the staff of the National Audit Office delivered a total of 76,440 active man-hours in connection with audit work, compared to 66,272 hours in 2002. Thus, the number of such hours increased by 10,168 between years, or by 15.3%. In order to carry out its statutory duties, the Office bought in professional services from 12 audit firms, corresponding to 4,052 hours worked. This represents an increase of 425 hours from the preceding year. Closer examination of the active man-hours of staff on audit projects reveals that 58.9% of the time was used on financial audits and internal control, 20.3% on performance audits, 7.6% on information audits, 7.5% on projects in the legal and environmental field, and 5.7% on other work. These ratios continue the trend of the past few years. However, the ratio of financial audit work decreased slightly at the cost of performance audits and other projects.

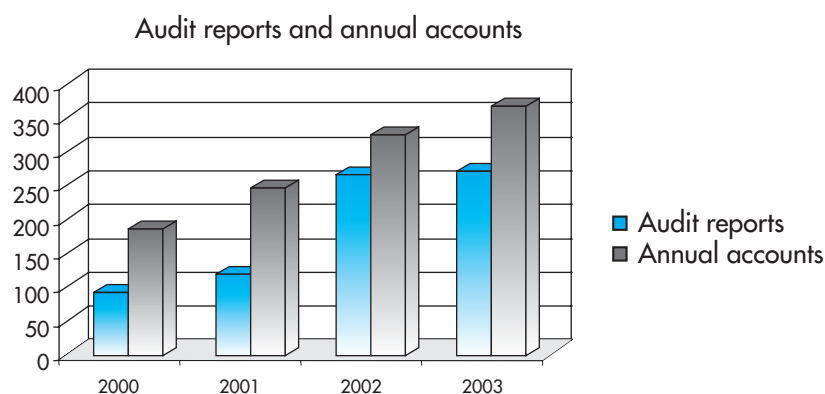
During 2003, a total of 59,948 hours were spent on auditing individual ministries and their agencies, compared to 53,332 hours in 2002. As in the past, most time was used on auditing budgetary items that come under the Ministry of Finance (26.9%), the Ministry of Health and Social Security (18%), the Ministry of Education (14%) and the Ministry of Justice (9.7%). As shown by the bar chart below, there was a slight transfer of hours between ministries from the year 2002. Particularly marked was the rise in the number of hours spent on the audit of budgetary items that come under the Ministry of Finance and the Ministry for the Environment, among other things owing to the nature of performance audits carried out during the year and new responsibilities in the area of environmental auditing. As a result, the proportion of hours used on the audit of budgetary items under the Ministry of Health and Social Security and the Ministry of Education dropped.

Division by ministries of hours worked



Staff increases in 2003 delivered a record output in the Office's history: It certified a total of 370 annual accounts and produced 274 audit reports. This

is a significantly larger number of projects than in 2002, when annual accounts totalled 328 and audit reports 269. In fact, these areas of activity have grown at a steep and steady rate in the past few years, as can be seen from the bar chart below. For comparison, it is worth noting that, in 2000, 189 annual accounts were certified and 95 audit reports were produced. At present, almost all central government bodies are audited annually. 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 output of other divisions of the Office was also unusually high in 2003. A total of 9 performance audits were conducted, up by three from the preceding year. Also, the Office issued two guidelines and one publication detailing the manner in which the Office itself aims to apply the Balanced Scorecard methodology in management and performance assessment. These reports and publications are fairly extensive in scope. They include the privatisation of major state enterprises in 1998-2003, the merger of the Reykjavík hospitals, district (police) commissioners' IT systems, an audit of performance management in central government bodies, and environmental auditing. Many of these reports are, furthermore, unusually voluminous.

Finances and expenditure

TOTAL EXPENDITURE IN 2003 net of user fees amounted to ISK 327.3 million, which represents an increase of 23.7% from the preceding year. The largest cost factors were increased compensation on account of staff increases (16.1%), operating costs (21.3%) and outlay in relation to construction and the installation of fixtures in several office rooms for new employees (95.8%). The Office's Budget for the year 2003 amounted to ISK 284.4 million. This results in an ISK 42.9 million deficit from operations. However, the deficit was offset by the Office's aggregate operating surplus from earlier years in the amount of ISK 28 million, producing a final deficit of ISK 15 million (4.9%).

According to its job-order costing records, the costs incurred by the Office's individual operating divisions are roughly consistent with their scope of activities. The operations of Financial Audit Divisions I-III cost approximately ISK 191 million, which corresponds to 58.3% of the Office's total expenditures. The operation of the Performance Audit Division and the IT Division cost ISK 86 million (26.3%), the operation of the Legal and Environmental Division ISK 23 million (7%), and central management ISK 28 million (8.5%). These ratios continue the trend of the past few years. However, there was a minor transfer of costs from the Financial Audit Divisions to the Performance Audit Division owing to increased activities at the latter.

Profit and loss account in ISK millions		Year		Deviations	
Items	2003	2002	Amount	%	
Compensation	258.3	222.5	35.8	16.1	
Other operating expenses	85.5	70.5	15.0	21.3	
Purchased assets	23.1	11.8	11.3	95.8	
Total costs	366.9	304.8	62.1	20.4	
User fees	(39.6)	(40.2)	(0.6)	(1.5)	
Costs net of user fees	327.3	264.6	62.7	23.7	
State contribution	(284.4)	(245.5)	38.9	15.8	
Surplus (deficit)	(42.9)	(19.1)	(23.8)		

The Office's informational role

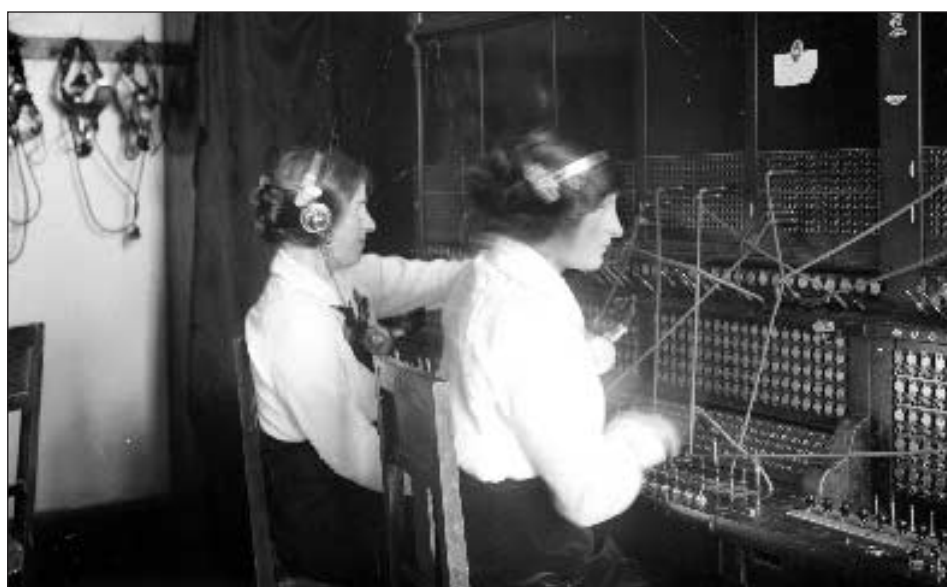
THE MAJORITY of reports produced by the Office in relation to financial audits and internal control are directed solely to the public bodies and ministries in question. However, some reports, particularly performance audits, are made public and sent to the Althing as well as the media. The Office also aims to inform the general public about management practices and spending of public money by public bodies and state-owned enterprises. To achieve this purpose, the Office has emphasised sound, positive and unbiased relations with the media. In 2002, the Office began sending the media press releases upon the issue of public reports, describing their subject matter and main conclusions. The media have responded positively, often publishing the press releases in their entirety, or basing their own news reports on them.

Press releases excepted, the Office seldom contacts the media directly on its own initiative, neither to introduce its current work, nor to comment on reportage by the media or by other parties on the Office's matters or activities. This is consistent with key rules applying in many of Iceland's neighbouring countries, e.g. Denmark. Also, it is bound to be one of the Office's basic goals to be able to perform its analyses of individual subjects unperturbed, without the risk of a general discussion affecting its conclusions.

Last year, the Office stepped up its emphasis on introducing its activities, including its projects and procedures, to external parties. In addition to its *Annual Report 2002*, the Office issued a small leaflet titled *The National*

Audit Office and a publication titled *Balanced Scorecard of the National Audit Office* about the manner in which the Office aims to apply the Balanced Scorecard methodology in order to achieve its objectives and assess the effectiveness of its work. All of these publications were issued in both Icelandic and English.

In late 2003, the Office launched a new and improved website. Its address remains unchanged: www.rikisendurskodun.is. With the new website, the Office aims to make itself more visible than previously and to meet modern demands on public bodies to disseminate useful and informative material in a userfriendly and accessible manner. Among the website's most important novelties is its English version, which contains all basic information about the Office and brief summaries of its latest press releases.



With the advent of the telegraph in 1906, Iceland came into direct contact with other countries

International relations

THE OFFICE attaches key importance to developing as a modern audit institution adept in the best audit practices and methodologies at any given time. To ensure such professional standards, the Office needs to foster close professional relations with overseas audit bodies and organisations. In to-day's rapidly globalising world economy and with the substantially increased importance of international agreements for individual countries, international audit work is becoming ever more important. The Office's annual report for 2002 discussed such co-operation, with a particular focus on one of the newest fields of public audit: environmental auditing. During 2003, the Office received professional assistance from its British sister institution, the UK National Audit Office, in relation to a performance audit of the merger of the Reykjavík hospitals.

The foreign body most instrumental in promoting co-operation between national audit institutions worldwide is the International Organisation of Supreme Audit Institutions (INTOSAI), which celebrated its 50th anniversary in 2003. INTOSAI has grown from the original 34 countries to a membership of 185 supreme audit institutions (SAIs). The INTOSAI triennial congress is held under the Latin motto *Experientia mutua omnibus prodest*, or “Mutual experience benefits all”. This maxim is illustrative of the organisation’s main purpose, which is the exchange of experience and knowledge among INTOSAI members in order to guarantee the continuous progress of government auditing. Thus, the organisation aims to assist as much as possible in promoting and improving the professional competence of individual audit institutions, in order to maximise their effectiveness for the benefit of national parliaments and the public at large. However, INTOSAI has also emphasised prudence and guarding against the wholesale adoption of others’ practices and methods.

The National Audit Office has endeavoured to take as much part in the activities of INTOSAI as possible, including attending congresses and participating in work teams, and takes into account the views and procedures advocated by the organisation at each session, in so far as this conforms to Icelandic law and regulations. For example, the Office’s auditing standards are based on the standards issued by INTOSAI, and the Office’s Code of Conduct, written in 2003, is based partly on the INTOSAI Code of Ethics.

In addition to co-operation within INTOSAI and the European Organisation of Supreme Audit Institutions (EUROSAI), the Office enjoys close relations with its Nordic sister institutions. The Office’s staff regularly participate in Nordic conferences and meetings relating to the institutions’ individual areas of activity, ranging from financial and performance audit to human resources management and the dissemination of information. On 16 and 17 October 2003, the Office hosted one such meeting, on financial audit. Its main subject was the utilisation of IT in financial audit, quality control in financial audit, and the changes that will occur regarding the financial statements of central government bodies in the near future. Also, Nordic Auditors General held their annual meeting in Joensuu in Finland on 12-14 August 2003.

In 2003, the Auditor General visited two foreign supreme audit institutions, Bulgaria’s in March and China’s in November. In August, the President of the Bulgarian National Audit Office visited Iceland accompanied by a judge from the Bulgarian Court of Auditors. In addition to learning about the activities of the Icelandic National Audit Office, they studied the operations of the Landspítali University Hospital.

The Office participates in the audit of various international organisations financed by tax revenues. It has representatives on the Audit Commission of the Council of Europe in Strasbourg as well as on the EFTA Audit Commission. Furthermore, the Auditor General, together with his Belgian counterpart, audits EUROSAI.

Audits during the year

Financial Audit

AS USUAL, conventional financial audit work comprised the Office's largest single sphere of activity in 2003. Pursuant to the National Audit Act, the Office shall in particular examine the following aspects in the operations of public bodies:

1. that financial statements present fairly the operations and financial position in accordance with generally accepted accounting principles;
2. whether internal control ensures adequate performance;
3. whether accounts are in conformity with authorisations under the Budget, the Supplementary Budget or any other Acts of Parliament, lawful instructions, practices or service contracts;
4. whether indicators of the activity and performance of public bodies are reliable.

As stated in the report *Audit of the Central Government Accounts 2002*, the Office issued a qualified opinion in only very few cases regarding audits of public agencies and enterprises in 2002. The Office has emphasised giving a formal account of its audit work to individual ministries and public bodies with a separate memorandum produced concurrently with certifying annual accounts. Ministries and public bodies usually discuss such comments made and take measures in response to them. In this respect, audit activities have delivered a clear benefit.

The Office constantly seeks to re-assess and improve its financial audit procedures, among other things in relation to its constantly changing operating environment. Not least, the use of IT in accounting, banking transactions and payments has called for substantially stepped-up internal controls of the installation and running of IT and financials systems, which are under constant development. Another area of key importance is to monitor compliance with specified procedures by those responsible for finances and accounting. For example, public bodies are required to separate their activities clearly, restrict access to payment and accounting systems to those that need such access to perform their duties, and ensure that all entries in the system are traceable to the person that made them. Finally, public bodies must pay adequate attention to human resources and ensure compliance with clear workplace rules and codes of conduct as well as effective internal controls. The Office has endeavoured to assist public bodies in this respect by issuing various guidelines. These include *Internal Control* (1998), *Electronic Commerce* (2000) and *Data Integrity in Information Systems* (2002). The Office has also emphasised that public bodies should establish a clear code of conduct.



In 1904, public accounting was transferred from the Governor of Iceland to the National Bank of Iceland

Focus points in Financial Audit

THE NATIONAL AUDIT OFFICE has in the past few years had the policy in financial audit to focus on a set of specific subject areas in their entirety. For the year 2002, the focus was on Icelandic embassies, standing committees and consular posts, research institutions, museums, disability issues and health-care centres. In addition, the Office has concentrated on a number of separate aspects of the operating environment of enterprises and public bodies in parallel with carrying out financial audits. The aspects selected for scrutiny reflect, to some extent, the Office's view of which focal points are of central importance. The main objective is to raise standards of prudent management in government departments and to strengthen internal control and civil servants' stewardship of public money and assets. For the audit of the Central Government Accounts for 2002, particular emphasis was placed on the following points:

- *Risk management of public agencies and enterprises:* A study was performed of whether public bodies have overall objectives, whether such objectives are recorded and measurable, whether managers are aware of the risks posed to the objectives' achievement, whether these risks are classified by nature, and whether they are measured regularly.
- *Human resources management and payroll:* A study was performed of whether public bodies had a human resources strategy, job descriptions in accordance with organisational structure, a payroll structure that takes into account responsibility, tasks and experience, training courses for new recruits, a vocational retraining plan and employee interviews.
- *Bought-in products and services:* A study was conducted of whether such purchasing was performed in a normal manner, e.g. whether standard

operating procedures were complied with, whether economy and cost-efficiency were ensured, whether products were delivered and whether purchases were appropriate in relation to the audited body's activities.

- *Subsidies:* A study was conducted of the authorisations of public bodies to grant subsidies, the decision-making processes for such grants, the appropriateness of subsidies granted, how applications are processed and whether public bodies require those receiving subsidies to deliver a report after completing their respective projects.

The results of these reviews are described in the report *Audit of the Central Government Accounts 2002*. The studies showed that approximately 84% of the 200 public bodies examined for these aspects had established overall objectives and that 70% had set separate sub-goals for their individual departments. Most of the bodies have some type of risk management incorporated in their procedures and formulation of objectives. This indicates that managers are generally aware of the risks involved in their operations. However, the term risk management is little known, and only a minority of public bodies have formally analysed and recorded the risk factors that might prevent them from achieving their established goals. Only a third of public bodies have, e.g., classified possible risks by nature. As a result, it is difficult to ascertain whether these bodies consider the most serious risk factors.

In the assessment of human resources management and payroll matters, the focus was mainly directed at general staff. This line of investigation revealed that 53% of agencies determine salaries systematically by responsibility, tasks and experience. Less clear is what criteria apply when deciding supplemental salaries. In this context, staff's performance and output seem to be of relatively small consequence. Only 48% of public agencies conduct regular employee interviews, which is a comparatively low percentage. Approximately 65% of agencies, however, use job descriptions in accordance with their organisational structure, and most agencies place heavy emphasis in vocational retraining.

Overall, the control of bought-in products and services is adequate. Nonetheless, agencies should give more weight to confirming the delivery of products and services. Public bodies' needs for services are not always sufficiently defined. Sometimes, the projects to which the services relate are not delimited clearly enough.

Most government bodies responsible for granting subsidies have well-defined procedures for such processes. However, a large proportion of agencies appear not to follow direct legal or regulatory requirements for subsidy granting procedures. About half of them, or less, publicised their grants, had application forms available and requested a written report regarding the objectives of the project in question. Only slightly more than half of the agencies assessed the effectiveness of their grants.

Although the Office discovered many opportunities for improvement in its assessment of the above aspects, it found the managers of government

agencies to be generally conscious of their importance and willing to change or improve their procedures when needed.

Internal control

THE TERM “INTERNAL CONTROL” has often been used in a narrow sense referring only to the internal financial control of government agencies and enterprises. The Office finds it necessary, however, to look at such control in a wider sense, i.e. expand it to managerial control. This enables the Office to provide a comprehensive overview of agencies’ organisation of such matters. Two staff members of the Office are engaged solely in this area of work.

Tasks relating to internal control can be divided into two main groups. The former concerns the agency’s operating environment, including the laws and regulations applicable to it, its organisation and management. In collaboration with the agency, its key risk factors are defined, and it is determined whether the agency has taken any measures to prevent possible damage that such factors might cause and, if so, which ones. In this context, any control mechanisms established by the agency are examined.

The latter group concerns the design of procedures and specifications. Various risk factors are defined in closer detail and recorded, and an effort is made to counter them by devising various procedures. This is a very important aspect of all internal control. If neglected, it is virtually impossible to react if something goes wrong.

The main conclusions of the Office’s checks in the past few years include significant shortcomings regarding the failure to document internal controls of government agencies, conduct structured risk assessment and formulate clear procedures and specifications. The chief explanation for this is that most government agencies are relatively small, so their managers believe they have sufficient overview of most aspects of their operations as well as awareness of individual risks. In the opinion of the Office, this is inadequate, and there is much work ahead for several agencies in mapping their activities with respect to internal control.

The year 2003 saw the completion of an audit of the internal controls of the State Accounting Office and the Directorate of Labour. Also, Landspítali University Hospital was assisted with reviewing its internal control, and the organisation and activities of Iceland Telecom’s Internal Audit division were examined after fraud was discovered during the year.

Performance Audit

THE NATIONAL AUDIT ACT specifies the purpose of performance audit as examining “the handling and utilisation of public funds, whether economy and efficiency is being taken care of in the operations of institutions and state-owned enterprises and whether applicable lawful instructions are being

complied with in this context.” This includes assessment of whether financial grants and other contributions from public money deliver the intended results. Although performance audit primarily refers to auditing within the public sector, its scope and methods of analysis are similar to those used in various management studies and management consulting. However, in contrast, the Office’s audits are seldom conducted at the request of the audited body. Its findings are made public in a report, and the Office does not take part in implementing its proposals.

Studies of operations and performance audits can be divided into various groups by their scope and methodology used. What these studies have in common is that they are focused on the objectives of agencies, the use of input for their operations, organisation and procedures on which they are based and, finally, their outputs and outcomes. Some of the analytical methods require the measurement of various operations of agencies, e.g. the use of inputs or the quantity and quality of services provided, in order to compare them to objectives, plans, previous periods, standards, comparable bodies or other benchmarks. Other audit methods are used to approach such questions indirectly, i.e. by looking at whether the audited bodies have an organisation and procedures that ensure economy, efficiency and effectiveness in their operations.

During 2003, the Office completed 9 performance audits. The largest projects dealt with the merger of the Landspítali University Hospital, performance management in central government bodies, the privatisation of state-owned enterprises, the Civil Aviation Administration and the number and education of primary and lower secondary school teachers. These audits are discussed briefly below.



From the Frikirkjuvegur School 1913-1914

The audit of the Landspítali University Hospital was performed in co-operation with the UK National Audit Office and a British firm specialising in hospital benchmarking. The purpose of this performance audit was to assess the level of success in merging Reykjavík's two largest hospitals. The conclusion was that the merger had as yet not delivered a substantial cost benefit, and that the hospital is less productive than comparable British university hospitals.

Performance management was adopted in Icelandic central government in 1996 in order to encourage ministries and agencies to work systematically towards achieving specific goals, measure the effectiveness of their activities and constantly strive to improve their operations. The Office's audit showed that co-operation between the ministries and agencies in prioritisation and strategy formulation increased after performance management was implemented, and that a better understanding than previously has been achieved between these parties regarding tasks and roles. However, the implementation has taken longer than intended at the outset. In 2002, only half of central government bodies had made performance-management agreements with their respective ministries.

In 1998-2003, the Icelandic Government sold eight enterprises fully or partly state-owned. The Office's audit of the sale of these companies demonstrated that the Government achieved its main privatisation objectives and followed established procedures. However, some shortcomings were identified in the sale of individual enterprises.

The Office's review of the number and level of education of primary and lower secondary school teachers showed that the supply of qualified teachers will meet Icelandic schools' teaching demand for the most part or completely in the next few years. The report also pointed out that most European countries require four years' teacher training at university level, while only three years are required in Iceland.

The Office's audit of the Civil Aviation Administration indicated that regulation and control of air safety appear to be in good order. The report pointed out that the possibility of having the Keflavik International Airport governed by the Civil Aviation Administration must be considered, and a number of possibilities were discussed in relation to the Administration's legal form.

Indicators of activities and performance

THE PUBLICATION *Balanced Scorecard of the Icelandic National Audit Office* (2003) outlines some of the Office's main objectives and methods of assessing its performance. Here an effort is made to assess the four key indicators of the Office's operations: Services, Internal Processes, Staff and Development, and Finance. Where workable, the assessment is based on the past three years. In some cases, a comparison is made with other Nordic supreme audit institutions.



Whither the course now? The Port of Reykjavik between 1915 and 1920

Services

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

In such efforts, the Office is bound to take into account the laws governing its activities, including its main responsibilities as stipulated therein, such as auditing central government bodies, regulating the implementation of the Government Budget, assisting parliamentary committees, and carrying out performance and environmental audits. These responsibilities entail, first, the certification of information from central government bodies regarding finances and environmental matters, and forming an opinion on their reliability. Second, they entail advisory services to improve economy, efficiency and effectiveness in the operations of central government bodies and, third, an effort to shed light on specific issues.

In addition to its statutory duties, the Office has tried to select projects of significance, particularly in areas about which there has not been full agreement as to how to assess or handle them. Among other things, the Office has borne in mind the financial significance of projects and their precedence, but also endeavoured, in so far as possible, to take into account the requests of central government bodies, the Althing and individual Members of Parliament. An effort has always been made to complete projects in a timely enough fashion for them to be of use in the intended discussion.

Satisfaction with the Office's services and real influence among those who may be regarded as its customers has not been examined. However, it is clear that ministries and agencies often take a positive view towards and consider the comments submitted by the Office in relation to financial and performance audits, and, in many cases, such comments lead to changes in the management and operation of such bodies. In this respect, the Office's audit activities deliver a clear benefit.

In addition to such influence, public reports by the Office evidently often attract considerable attention and are frequently cited in the Althing, in the media and in other discussion. Also, the number of visits to the Office's website shows that there is substantial, and increasing, interest in its activities, especially its reports. The greatest change occurred in 2003, when the number of accessed documents more than doubled from the preceding year. The Office's efforts to deliver information to the public via the Internet has, therefore, been a clear success.

Number of document accesses on the Office's website					
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
2001	1.483	3.730	2.181	1.888	9.282
2002	1.822	1.840	2.462	2.962	9.086
2003	3.245	4.992	4.982	5.175	18.394

Examination regarding the 13 reports issued in 2003 reveals that they were accessed a total of 5,532 times. On average, each report was thus accessed 426 times. In addition, 200-300 hard copies were distributed. The reports that attracted the most attention were *Commissioners' Computer Systems – A Review of Information Systems*, opened 927 times, and *Indicators of Activities and Performance*, opened 900 times. Compared to the year 2002, public interest has increased substantially, as is shown by the following summary:

Five most-read reports on the Office's website					
Order/Year	2002		2003		
1	The Social Security Institute	654	Commissioners' Computer Systems	927	
2	Sólheimar	591	Indicators of Activities	900	
3	Reykjavík Health Care	358	Was it a success?	623	
4	Data Integrity	357	The Civil Aviation	590	
5	Committees, Councils ...	344	The Reykjavík Hospitals	577	
Total		2.304		3.617	

Internal Processes

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

The Office strives to achieve this objective by increasing the number of reports, memoranda and financial statements produced, and completing them in a timely enough fashion for them to be of use in decision-making on the operations of government agencies and enterprises. Also, there is a continual effort to improve the internal processes used on a day-to-day basis. Among other things, the Office has tried to measure its performance in these efforts by monitoring the number of certified annual accounts, audit reports, performance audits, memoranda and other publications produced by its staff. As demonstrated by comparing the past three years, efficiency in financial audit work has improved substantially during the period.

Financial Audit	2001	2002	2003
Certified annual accounts	248	328	370
Audit reports	122	269	274
Total	370	597	644

Switching the focus to other reports, i.e. performance audits, memoranda and guidelines, brings to light more fluctuations between years. These are caused by, among other reasons, the fact that the time that such audits take varies to a large degree by their nature and scope. Also, these reports are usually produced over more than one almanac year, so the year to which they are ascribed is sometimes coincidental. The comparison of the last three years shows that the year 2003 was substantially more productive than the two preceding years.

Other reports	2001	2002	2003
Performance audits	10	6	9
Memoranda, etc.	7	9	17
Guidelines	1	1	2
Total	18	16	28

With ever-increasing electronic public administration, the need for highly efficient management of IT and equipment-related issues grows for audit bodies. The Nordic supreme audit institutions have endeavoured to compare their annual expenditures in this area. This reveals that the Office is on a level with the supreme audit institutions of Denmark and Finland in this respect. All three institutions spend approximately, or just over, ISK 300,000 per year on the renewal of each employee's computer and other equipment. This figure includes services bought in and the payroll costs of the staff responsible for such matters.

IT expenditure on each employee, 2003 (ISK thous.)					
Iceland	Denmark	Finland	Norway	Sweden	Average
321.3	309.4	297.5	440.3	428.4	359.4

This Nordic comparison shows that the IT systems of the institutions were operated without disturbance throughout nearly all working hours of the staff. On average, the institutions' systems were active 99.7% of all working hours. For the Office, the ratio was 99%. This comparison illustrates that the Office's running of its IT systems is on a par with other comparable institutions.

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. Also, the Office endeavours to build an encouraging morale in the workplace.

To measure this performance factor, the following aspects are considered: the percentage of staff with a university degree, the percentage of staff with more than three years' experience, their average length of service in years, the number of hours worked by staff, and the number of vocational retraining hours. Also, the number of sick days is used as a benchmark for the work environment and employee satisfaction.

As already mentioned, over 80% of the Office's employees have a university degree in a subject related to the Office's sphere of activities. This is a similar, or slightly higher, percentage than in the past few years. The percentage of staff whose length of service is more than three years is also relatively high, or over 70%, and rising. Thus, the Office clearly has well-educated and experienced employees.

Ratio of employees with over three years' experience		
31.12. 2001	31.12. 2002	31.12. 2003
67.4%	62.7%	72.5%

It is worth noting, furthermore, that the Office's staff have usually remained loyal to it. Only one staff member left during 2003, and, as stated before, the average length of service of employees is 9.6 years. This is just below the average length of service for other Nordic supreme audit institutions. The average length of service of managers, i.e. the Auditor General and six division managers, is higher still, or 13.6 years.

Average length of service in years for Nordic supreme audit institutions, 2003					
Iceland	Denmark	Finland	Norway	Sweden	Average
9.6	14.3	11.8	9.5	9.3	10.9

The number of hours worked rose substantially during 2003 in parallel with staff increases and more projects. The summary presented here is based exclu-

sively on active audit work hours, i.e. holidays, leaves of absence, weekend days and sick days are omitted, as are hours spent on central management and day-to-day operations, such as office management. Thus, an effort is made to provide an overview of the time the Office spends yearly on performing its statutory duties.

Number of audit work hours		
2001	2002	2003
66.240	66.272	76.440

The Office placed central emphasis on the need for staff to maintain and increase their professional expertise through continual and active training. Training courses are held for newly recruited staff, in which they become familiar with the Office's main responsibilities, procedures and tools. Each year, the Office organises structured training courses for employees, where experts among the staff as well as external parties share useful knowledge. Staff are also offered the opportunity to attend separate training courses or seminars held by external parties. Lastly, the Office has sought to provide assistance to employees pursuing regular university courses or who aim to become state-authorized public accountants. In 2003, one employee obtained a master's degree in public administration, and another gained state-authorization as a public accountant. On average, employees devoted 53.3 hours to professional retraining during 2003, which represents a slight increase over the preceding year, when retraining hours numbered 52.5. However, comparison with other Nordic supreme audit institutions shows that the Office is considerably below average in this respect.

Number of retraining days per employee, 2003					
Iceland	Denmark	Finland	Norway	Sweden	Average
6.7	8.2	7.6	12.5	7.2	8.5

The number of sick days is often applied as a benchmark for the security of the work environment and the effect that this has on staff's resistance against diseases. Also, a correlation has been pointed out between the number of sick days and how encouraging the morale of the workplace is. In 2003, each employee was absent from work owing to illness for an average of 4.1 days, down from 4.5 days in 2002. This is a substantially lower number than the average for Icelandic companies. According to a study conducted by the Confederation of Icelandic Employers in 2002, the staff of Icelandic companies were absent from work owing to illness for an average of 8 days that year. The conclusion is also complimentary for the Office when compared to the other Nordic supreme audit institutions.

Staff's absences owing to illness as a ratio of worked hours, 2003					
Iceland	Denmark	Finland	Norway	Sweden	Average
1.7	3.0	3.3	6.9	2.0	3.4

Finance

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

When operating results are compared to budgetary appropriations, the position of the Office was excellent in 2001, when operating expenses were well within budget. The year 2002, on the other hand, generated an ISK 19 million operating deficit, which rose to ISK 43 million in 2003. Adjusting for the aggregate operating surplus from preceding years, operations in 2003 thus exceeded budgetary appropriations by ISK 15 million (4.9%). In response to this development, appropriate measures were made at the start of 2004.

Aggregate operating surplus (/deficit) in millions of ISK			
Year	Position at year-start	Surplus (deficit)	Position at year-end
2001	26	21	47
2002	47	(19)	28
2003	28	(43)	(15)

In order to assess the cost-efficiency of 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, services bought in from audit firms. This assessment is based solely on financial audit, as bought-in services were mostly used in that division. The summary covers three years, and indicates explicitly 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 (%)
2001	6.057	4.501	1.556 (25.6%)
2002	6.747	4.378	2.369 (35.1%)
2003	7.043	5.015	2.028 (28.8%)

Publications in 2003

Reports

1. Commissioners' Computer Systems. A Review of Information Systems (March)
2. Sólheimar: Home for Disabled Persons 1996-1999 (April)
3. The Icelandic Civil Aviation Administration (May)
4. Was it a Success? Performance Management in Central Government Bodies (June)
5. The Icelandic Meteorological Office (June)
6. Primary and Lower Secondary Teachers: Number and Education (September)
7. Code of Conduct in Public Administration (September)
8. Audit of the Central Government Accounts 2002 (October)
9. The Merger of the Reykjavík Hospitals: Performance Assessment (November)
10. The Privatisation of Major State Enterprises in 1998-2003 (December)

Guidelines

1. Indicators of Activities and Performance: Balanced Scorecard in Central Government Bodies (February)
2. Environmental Auditing in a Nutshell: The Role of the Icelandic National Audit Office in Environmental Auditing (December)

Other publications

1. Balanced Scorecard of the Icelandic National Audit Office (May)
2. Icelandic National Audit Office: Annual Report 2002 (June)
3. Icelandic National Audit Office (September)

Financial Statements 2003

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 or funds on behalf of the Icelandic Government. The Office is also responsible for auditing companies over which the Government has charge and companies in which the Treasury holds a share of at least 50%. The National Audit Office regulates the implementation of the Government Budget and may conduct performance audits.

During the year 2003, the Office's operations generated a loss of ISK 42,954 thousand. According to the Balance Sheet, the assets of the Office amounted to ISK 12,883 thousand and equity was negative by ISK 15,324 thousand at year-end 2002.

The Auditor General and the Office Manager certify the Financial Statements of the National Audit Office by attaching their signatures.

National Audit Office, 12 March 2004

Sigurdur Thordarson
Auditor General

Sveinn Arason
Audit Manager

Auditor's Report

To the President of the Icelandic Parliament

I have audited the Financial Statements of the Icelandic National Audit Office for the year 2003. 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 at its responsibility. 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, on a test basis, 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 opinion.

In my opinion, the Financial Statements give a true and fair view of the performance of the National Audit Office in the year 2003, its Balance Sheet as of 31 December 2003 and change in cash during the year 2003, in accordance with laws and regulations and generally accepted auditing standards for Group A entities.

Reykjavik, 19 March 2004



Gudmundur Skaftason, hrl.
Chartered Accountant

Profit and Loss Account 2003

	2003	2002
Net operating revenue		
User fees	<u>39.637.999</u>	<u>40.149.175</u>
	<u>39.637.999</u>	<u>40.149.175</u>
Operating expenses		
Compensation	258.333.798	222.520.020
Salary-related expenses	13.463.552	14.953.141
Operating expenses	6.513.775	5.959.616
Services purchased	45.054.384	38.424.745
Housing	18.160.146	9.413.160
Vehicles	506.973	610.421
Public duties and insurance	264.331	419.712
Transfers	<u>1.600.000</u>	<u>720.000</u>
	343.896.959	293.020.815
Purchased assets	<u>23.095.456</u>	<u>11.755.989</u>
	<u>366.992.415</u>	<u>304.776.804</u>
Operating profit (-loss) before Government contribution	(327.354.416)	(264.627.629)
Government contribution	<u>284.400.000</u>	<u>245.500.000</u>
Profit (loss) for the year	<u>(42.954.416)</u>	<u>(19.127.629)</u>

Balance Sheet, 31 December 2003

Assets	2003	2002
Current assets		
Treasury	0	20.484.966
Accounts receivable	12.633.653	12.369.024
Other receivables	17.714	25.576
Cash and cash equivalents	231.752	217.526
Total assets	<u>12.883.119</u>	<u>33.097.092</u>
 Liabilities and Equity		
Equity		
Equity at the beginning of the year	27.630.550	46.758.179
Profit (-loss) for the year	(42.954.416)	(19.127.629)
Equity	<u>(15.323.866)</u>	<u>27.630.550</u>
 Liabilities		
Current liabilities		
Treasury	22.709.653	0
Accounts payable	81.530	656.336
Outstanding dues	5.415.802	4.810.206
Liabilities	<u>28.206.985</u>	<u>5.466.542</u>
 Equity and Liabilities	 <u>12.883.119</u>	 <u>33.097.092</u>

Statement of Cash Flow 2003

	2003	2002
Cash flow from operations		
<i>Working capital provided by operating activities:</i>		
Profit (loss)	(42.954.416)	(19.127.629)
Working capital provided by operating activities	<u>(42.954.416)</u>	<u>(19.127.629)</u>
 <i>Changes in current assets and liabilities:</i>		
Receivables (increase)	(256.767)	(9.249.902)
Current liabilities (decrease)	30.790	(1.215.723)
	<u>(225.977)</u>	<u>(10.465.625)</u>
 Net cash provided by operating activities	 (43.180.393)	 (29.593.254)
 Cash flow from financing activities		
<i>Changes in balance with the Treasury:</i>		
Treasury contribution	(284.400.000)	(245.500.000)
Received from the Treasury	<u>327.594.619</u>	<u>275.093.756</u>
Net cash provided by financing activities	<u>43.194.619</u>	<u>29.593.756</u>
 Increase (decrease) in cash and cash equivalents	 14.226	 502
 Cash and cash equivalents at the beginning of the year	 <u>217.526</u>	 <u>217.024</u>
 Cash and cash equivalents at the end of the year	 <u><u>231.752</u></u>	 <u><u>217.526</u></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 Accounts No. 696/1996.

According to the Government Financial Reporting Act, Group A entities shall not capitalise fixed assets, but charge them to 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.

Taxes

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. At year-end, accrued expenses belonging to the financial year in question are entered in the Profit and Loss Account and as costs payable at year-end.

Operating Divisions

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

Current Liabilities

Current liabilities are entered at nominal value.

Cash and Cash Equivalents

The Office keeps no funds but has bank deposit accounts.

Pension Liabilities

The Office has accrued pension liabilities for its 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. The pension liabilities of the Office in relation to its present and past employees have not been calculated separately.

Accounts Payable

Accounts payable are entered at nominal value.

Accounting and Financial Guardianship

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

Budget and Operations

The Government Budget for the year 2003 anticipated similar activities as during the preceding year. The appropriations of the Government Budget totalled ISK 269.6 million. Supplements in respect of a ruling from the State Arbitration Court amounted to ISK 7.8 million and ISK 7 million from the Supplementary Budget to cover rental expenses of the new office building. Therefore, the spending limits for the year totalled ISK 284.4 million.

Operating expenses less user fees totalled ISK 327.3 million and thus exceeded spending limits by ISK 42.9 million. During the year, ISK 18.0 million in carry-over of spending limits were spent on construction development. Operating expenses are specified as follows:

In ISK thousands	Budget	Spending limit	Accounts	Deviation
Compensation	213.600	221.400	258.334	(36.934)
Other operating expenses	64.300	71.300	85.563	(14.263)
User fees	<u>(11.400)</u>	<u>(11.400)</u>	<u>(39.638)</u>	<u>28.238</u>
	266.500	281.300	304.259	(22.959)
Purchased assets	<u>3.100</u>	<u>3.100</u>	<u>23.095</u>	<u>(19.995)</u>
	<u>269.600</u>	<u>284.400</u>	<u>327.354</u>	<u>(42.954)</u>

Break-down of the Profit and Loss Account for 2003 by type:

	2003	2002
Compensation	258.333.798	222.520.020
Other operating expenses	85.563.161	70.500.881
User fees	<u>(39.637.956)</u>	<u>(40.149.261)</u>
	304.259.003	252.871.640
Purchased assets	<u>23.095.456</u>	<u>11.755.989</u>
Total	<u>327.354.459</u>	<u>264.627.629</u>

Divisions

According to the Office's organisational chart, it is divided into three principal divisions in addition to senior management. The distribution of costs between separate divisions is based on the amount of work contributed by their staff, as stated in the Office's job-order costing.

Profit and Loss Account by divisions:

	2003	
	In ISK thousands	Ratio %
Senior management	27.683	8.5
Audit Division	190.894	58.3
Performance Audit Division	85.980	26.3
Legal Division	22.797	7.0
	<u>327.354</u>	<u>100.0</u>



From Thingvellir ca. 1910 – 1920



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