

**RULES**  
**on the Auditing of Pension Funds**  
**No. 685 of 10 September 2001**

**Chapter I**

**Scope**

Article 1

These Rules are a definition of the main features of generally accepted auditing standards for pension funds, cf. paragraph 5, Article 42 of Law no. 129/1997.

**Chapter II**

**Objectives for audits of annual accounts**

Article 2

The audit of annual accounts of pension funds shall be executed in accordance with generally accepted auditing standards and the provisions of these Rules. The objective of the audit is to ascertain whether the annual account presents fairly the change in net equity for pension payments and that the annual accounts have been compiled in accordance with legislation and rules applying to the institution, pension fund agreements, and generally accepted accounting principles and that the provisions of laws and regulations regarding the obligation of the institution concerned to publicise information. This includes, *inter alia*:

1. Whether the information in the statement of change in net equity for pension payments and the explanatory notes present fairly the change in net equity for pension payments in accordance with law, rules, agreements, and generally accepted accounting principles.
2. Whether investments, claims and other assets in the balance sheet are available, owned by the institution, and entered and evaluated in accordance with current laws, rules and generally accepted accounting principles. Also, that mortgages and other encumbrances on assets are presented in the annual accounts.
3. Whether obligations and liabilities, including guarantees and contingent liabilities are specified and evaluated in the balance sheet or off-balance sheet in accordance with law, rules and generally accepted accounting principles.
4. Whether the statement of change in net equity for pension payments, balance sheet and cash flow statement are in accordance with the accounting records of the institution concerned.
5. Whether individual entries in the statement of change in net equity for pension payments, balance sheet and cash flow statement are itemised and classified in accordance with law, rules and generally accepted accounting principles and that all necessary information is included in the annual accounts.

### **Chapter III**

#### **Role and position of the auditor**

##### Article 3

The auditor may not be dependent of the managers of a pension fund, be a member of its board or be employed by it. Furthermore, the auditor may not work on behalf of the fund on matters that may impair his independence of the fund. The auditor may undertake internal control as an independent reviewer, cf. Article 34, paragraph 1, of Law no. 129/1997 insofar that it does not impair his independence of the fund.

The auditor of a credit institution may not be in debt to the institution for which he carries out auditing, either as a principal debtor or a guarantor, unless he is a member of the fund and his debt is in accordance with rules pertaining to lending to fund members. The same applies to the auditor's spouse.

##### Article 4

The auditor may not accept the recommendations or interference of a manager of a pension fund or a third party on the execution of the auditing. Thus, he may not enter into any agreement stipulating limitations to the auditing.

##### Article 5

The auditor of a pension fund may employ assistants or experts for the completion of individual parts of the auditing, on the condition that they are professionally qualified for the work. Furthermore, the auditor shall, in further agreement with the board of directors of the pension fund, and to the extent he deems fit, base his work on the observations and reviews carried out by the internal auditing department of the pension fund, cf. article 34, paragraph 1, of Law no. 129/1997, provided he has ascertained that the independence, impartiality and professional skills of the employees of the department form a sufficient basis for such trust. The auditor shall always review and conduct the necessary surveys of the quality and scope of such aspects of the work of the internal auditing department that he intends to use as a basis for his results.

### **Chapter IV**

#### **Execution and scope of the auditing**

##### Article 6

The audit shall be carried out in accordance with generally accepted auditing standards. This means auditing by approved methods as used by competent and conscientious auditors. The main features of auditing are as follows:

1. Review of accounting systems, including connected computer systems and accounting organisation as regards the reliability of the accounting systems in use and as regards internal control.
2. Observation and collection of data to confirm the correctness of individual items in the annual accounts. This entails a survey by the auditor of the recording of premiums and the recording and calculations of pension rights, the execution of investment policies and yield from assets, and that allocation of funds is in accordance with applicable laws, regulations and agreements.
3. The auditor shall also obtain a declaration from the board of directors to the effect that all assets, liabilities, guarantees, obligations and commitments are stated in

the annual accounts, and that the board of directors know of no risk or incident, before or after the end of the financial year, related to the financial position of the pension fund, and which might at a later date give rise to a considerable reduction in the financial position shown in the annual accounts.

4. A review of the operations of a pension fund, its development and prospects, primarily to assess whether there is any danger that the operations cease in the coming year.

#### Article 7

The auditor shall ensure that the description of accounting systems, including connected computer systems, and internal control, on which he bases his assessment for decisions regarding the scope and methods for auditing the annual accounts, is reliable. This includes spot checks of entries in different fields of the accounting system and regular surveys of individual features of internal control.

If the results of surveys reveal that accounting systems and internal control provide sufficient assurance that accounting is in order, extensive surveys of individual accounting items might be deemed unnecessary.

### **Chapter V**

#### **Importance and risk**

#### Article 8

In deciding on the execution and scope of surveys in relation to the auditing and endorsement of annual accounts, the auditor shall consider the importance of individual elements and risk. While conducting his survey, the auditor shall focus primarily on the most important items in the annual accounts and the elements of internal control, where there is greatest danger of deviation.

The risk of deviation varies between different items in the annual accounts. The strength of internal control affects the risk and hence all decisions regarding the execution and scope of the audit. The auditor shall always examine the real value of the assets of an institution, and survey in particular the possible risk involved in obligations or contracts entered into by the institution. Risk distribution of investments shall also be specially examined.

#### Article 9

If the audit reveals substantial flaws in the operation of a pension fund or in matters concerning internal control, collection of premiums, handling of financial resources, guarantees for lending, or other matters which might weaken the financial position of the institution concerned, or if the auditor finds reason to believe that the laws, regulations or rules pertaining to the operations have been violated, the auditor shall notify the directors of the pension fund and the Financial Supervisory Authority.

### **Chapter VI**

#### **Organisation and documentation of the audit**

#### Article 10

The main aspects of the annual auditing work shall be organised in advance in an audit plan, which is a written description of the intended scope and execution of the audit and also an orderly summary of those elements in the internal and external environment of the pension fund that might affect the auditing work.

The audit shall then be conducted in accordance with the audit programme, which is a written description of the steps necessary for the execution of the audit plan.

The scope and result of individual audit steps and the total results for individual items in the annual accounts shall be documented in working papers. Audit working papers shall be collected and systematically stored.

#### Article 11

Suggestions and comments which the auditor wishes to express to the board, or to the directors, shall be communicated in writing and these parties shall be given a reasonable period in which to reply. If the auditor sees fit, he may submit proposals to the board of directors of a pension fund regarding improvements in the handling of financial resources, modifications of internal control and internal auditing, and other matters that he considers might be beneficial to the operations of the pension fund.

### **Chapter VII**

#### **Endorsement of the annual accounts and the auditor's report to the board of directors**

##### Article 12

The auditor shall endorse the annual accounts and state the conclusion of his audit. The endorsement shall contain information to the effect that the annual accounts have been audited in accordance with generally accepted auditing standards and in accordance with current legislation and rules, and that in this respect all necessary audit steps have been taken. If the auditor considers that the report from the board of director does not contain the information which should be given, or that it is not in conformity with the annual accounts, he shall draw attention to this in his audit report, and, if possible, present additional information. In other respects, the auditor may mention in his endorsement other matters, which he considers appropriate to include in the annual accounts.

The auditor shall sign and date his endorsement on the date of completion of the auditing work, including special audit steps on account of events taking place after the accounting date and special audit steps on account of events taking place after the completion of normal auditing work and until the endorsement date. The auditor shall not endorse the annual accounts until the directors have confirmed it with their signatures.

##### Article 13

In addition to endorsing the annual accounts of a pension fund, the auditor shall, upon completion of traditional auditing work, submit to the board of directors of the pension fund concerned a special auditor's report for the annual financial statements. In this report, the auditor shall, as applicable, explain the following:

1. The main aspects of the auditing work carried out in relation to the audit of the annual accounts.
2. The main results of auditing reviews on the internal control of the pension fund and the auditor's opinion regarding the quality of the internal control system of the pension fund, and the operations of the internal auditing department. In this respect it is appropriate to refer to the written suggestions and comments previously submitted to the directors by the auditor.

3. Other comments and suggestions which the auditor believes should be communicated to the board of directors of the pension fund, such as comments regarding the operations of the pension fund, the safeguarding of assets, and the risk management of the pension fund.

**Chapter VIII**  
**Entry into effect**

Article 14

These Rules are adopted with reference to Article 42, paragraph 5, of Law no. 129/1997 regarding mandatory pension insurance and operations of pension funds and take effect forthwith. At the same time, Rules on the auditing of pensions funds No. 546/1998 from 7 September 1998, shall cease to apply.

Reykjavik, 10 September 2001

FJÁRMÁLAEFTIRLITID  
(The Financial Supervisory Authority, Iceland)

Páll Gunnar Pálsson

Ragnar Haflidason