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*The original Icelandic text, as published in the Law Gazette (Stjórnartíðindi), is the authoritative text. Should there be discrepancy between this translation and the authoritative text, the latter prevails.*

## Act No. 79/2008 on auditors

2008 No. 79 12 June

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**Entered into force 1 January 2009.** *EEA Agreement: Annex XXII, Directive 2006/43/EC. Amended by Act No. 98/2007 (entered into force 1 October 2009, except for Articles 69 and 70, which entered into force 1 January 2010).*

### Chapter I. General provision

#### Article 1

##### Definitions

For the purposes of this Act the following definitions shall apply:

1. *auditor*: A person possessing the knowledge to give an objective and dependable opinion regarding accounts and other financial information, is certified to work as an auditor and complies in other respects with the conditions of this Act;

2. *audit*: An independent and systematic gathering of information and evaluation thereof for the purpose of expressing the reasoned and professional opinion of an auditor regarding the reliability and presentation of the information in compliance with law, statutory accounting rules or other conditions referred to in the opinion;

3. *audit firm*: An undertaking which has obtained registration to carry out audits pursuant to the provisions of this Act;

4. *audit committee*: A committee as defined in Chapter IX of Act No. 3/2006 on annual accounts;

5. *network of audit firms*: auditors or audit firms who are in co-operation which is aimed at profit- or cost-sharing or shares common ownership, control or management, common quality-control policies and procedures, a common business strategy, the use of a common brand-name or a significant part of professional resources;

6. *international auditing standards*: International standards on auditing (ISA) and related statements and standards, insofar as relevant to audits, which have been approved by the EU Commission pursuant to Article 26 of Directive 2006/43/EC and incorporated into the Icelandic legal order.

7. *public-interest entity*:

a. a legal person domiciled in Iceland with securities listed in a regulated market in a state within the European Economic Area, a state party to the Convention establishing the European Free Trade Association or the Faeroe Islands;

b. a pension fund possessing a valid operating licence;

c. a credit institution as defined in Act No. 161/2002 on financial undertakings;

d. a company possessing a licence to engage in insurance activities in Iceland pursuant to Act No. 60/1994 on insurance activities.

### Chapter II. Qualifications of auditors

#### Article 2

The Minister confers qualifications by means of certification to carry out audits. To obtain certification an applicant must fulfil the following conditions:

1. be domiciled in Iceland or be a citizen of a member state of the European Economic Area, a state party to the Convention establishing the European Free Trade Association or the Faeroe Islands;
2. be of legal age and have been competent to manage his or her estate for the preceding three years;
3. have an unblemished reputation, as required for eligibility to the Althing;
4. have completed masters studies in auditing and accounting approved by the Public Auditors' Oversight Board;
5. have passed an examination in accordance with Article 5;
6. have worked for a minimum of three years under the guidance of an auditor on auditing annual accounts or other accounts at an audit firm;
7. have professional indemnity insurance coverage, as provided in Article 6.

If an auditor qualified as such in a member state of the European Economic Area, a state party to the Convention establishing the European Free Trade Association or the Faeroe Islands wishes to obtain certification to carry out audits in Iceland, he or she must pass a qualification examination in tax law and company law and applicable rules.

The Minister may, on the recommendation of the Public Auditors' Oversight Board, grant certification to carry out audits to individuals who can prove that they have completed studies and passed an examination outside Iceland which is regarded as compliant with the requirements made in points 4, 5 and 6 of the first paragraph above, provided that they meet the provisions of points 2, 3 and 7 of the same paragraph. Such individuals shall pass a qualification examination in tax law and company law and applicable rules.

The Public Auditors' Oversight Board may exempt individuals who have completed other studies with auditing as an elective field from the provisions of point 4 of the first paragraph above, provided that the Council is satisfied that the applicant has sufficient knowledge of the issues that relate to auditors and their work.

Before certification is granted, an applicant shall make a solemn declaration that he or she will carefully and conscientiously carry out the work that the certification permits and comply with laws and other rules relating to such work.

### **Article 3**

#### *Audit firms*

Auditors are permitted to establish a company for the operation of an audit firm in the corporate form that they choose, including a limited liability form.

The majority of voting rights in an audit firm shall be held by auditors or audit firms which have been approved in the European Economic Area, a state party to the Convention establishing the European Free Trade Association or the Faeroe Islands.

In an audit firm, the majority of the board of directors shall be auditors or agents of audit firms. If there are two board members, one shall be an auditor or an agent of an audit firm.

An audit firm shall have in place a formal quality assurance system.

An audit firm shall ensure that the names and addresses of the owners of the firm are accessible to the public.

An audit firm, having complied with the provisions of this Article, shall apply to the [Ministry of Economic Affairs]<sup>1)</sup> for a licence to carry out audits. Also, the firm is required to notify the Ministry promptly if it is no longer in compliance with any of these provisions.

<sup>1)</sup>Act 98/2009, Art. 51.

#### **Article 4**

The Ministry will publish an public register of auditors and audit firms which have been granted a licence to carry out audits, subject to compliance with the provisions of Articles 2 and 3.

The Ministry shall issue further rules on the registration and the information to be included.

Auditors and audit firms shall be identified by an individual number in the public register.

An audit firm registered pursuant to the first paragraph above shall not have been subjected to bankruptcy or suffered any blemish of its reputation giving rise to doubt regarding its ability to meet any requirements of this Act concerning auditing. An audit firm which has been registered shall promptly notify [the Ministry]<sup>1)</sup> of any non-compliance with the conditions of this paragraph.

Auditors and audit firms pursuant to the first paragraph above shall, without unreasonable delay, notify [the Ministry]<sup>1)</sup> of any changes in the information contained in the register.

Only auditors and audit firms pursuant to the first paragraph are permitted to use the words “auditor” or “audit” in their professional titles or corporate names. Also, it is not permitted to give the impression that a person is an auditor if this is not the case, cf. the first paragraph, by the use of a professional title, corporate name or in any other misleading manner. However, this provision does not apply to the professional title of internal auditors of undertakings, provided that their work forms a part of the internal control by the management of the undertaking in question.

The Minister shall advertise the certification of auditors and the registration of audit firms in the *Official Gazette* and notify the Public Auditors' Oversight Board and the Institute of State Authorised Public Accountants. The same applies if a registration is discontinued pursuant to the tenth paragraph above.

The Minister shall issue a licence to auditors.

Prior to certification an auditor shall pay a fee to the State Treasury pursuant to Act No. 88/1991 on supplementary State revenues.

If an auditor has turned in his or her licence or the licence has been revoked, his or her name shall be deleted from the register provided for in the first paragraph above. The same shall apply to an audit firm which is no longer in compliance with the fourth paragraph of this Article and/or the conditions of Article 3.

<sup>1)</sup>Act 98/2009, Art. 51.

#### **Article 5**

##### *Examinations and Examination Committee*

The Public Auditors' Oversight Board appointed pursuant to Article 14 shall appoint an Auditors' Examination Committee of three members to organise examinations for applicants for certification as auditors. The committee shall be appointed for a term of four years.

The examination to qualify as auditors shall cover the principal fields of theoretical and applied knowledge that relates to auditors and their work.

A regulation<sup>1)</sup> issued by the Minister on the recommendation of the Public Auditors' Oversight Board shall include conditions for permission to take the examinations, fields of examination, the conduct of the examinations and the minimum requirements for passing.

Examinations shall normally be held once every year.

The cost of examinations, including the remuneration to the members of the Examination Committee, shall be covered by an examination fee to be decided by the Minister on the recommendation of the Public Auditors' Oversight Board.

<sup>1)</sup>Reg. 589/2009.

## **Article 6**

### *Professional indemnity insurance*

An auditor is required to maintain professional indemnity insurance with an insurance company licensed to operate in Iceland covering any financial damage that may result from [...] <sup>1)</sup> negligence on the part of the auditor or his/her employees in the course of work pursuant to this Act. The insurance cover requirement shall lapse if an auditor turns in his or her licence pursuant to the first paragraph of Article 24.

Acting on the recommendation of the Public Auditors' Oversight Board, the Minister shall decide the minimum of insurance coverage pursuant to the first paragraph and the maximum amount of own risk.

Prior to 15 January of each year, auditors shall send to the Institute of State Authorised Public Accountants confirmation of valid professional indemnity insurance.

<sup>1)</sup>Act 10/2010, Art. 1.

## **Article 7**

### *Continuous education*

An auditor is required to engage in continuous education to ensure the regular maintenance of theoretical knowledge, professional skills and values.

The continuing education shall, at a minimum, correspond to 20 hours per year and a total of 120 hours in any period of three years. The continuing education period of an auditor who is granted certification for the first time shall begin on 1 January of the year following certification.

Continuing education pursuant to the first paragraph above shall, in any three year period, cover at least the following fields, and the minimum of continuing education in each field shall be as follows:

- a. auditing, 30 hours,
- b. accounting and finance, 20 hours,
- c. tax law and company law, 15 hours,
- d. ethics and professional values, 10 hours.

An auditor shall keep records of his or her continuous education and a minimum of 60 hours shall be verifiable in any three-year period.

The Minister may issue further provisions on auditors' continuing education in a regulation.

## **Chapter III Professional activities of auditors**

### **Article 8**

Auditors shall perform their work with due care and conscientiousness in all respects and observe the provisions of the laws and rules that apply to their work.

Auditors shall observe the Code of Ethics issued by the Institute of State Authorised Public Accountants.

An auditor has the status of a public official when carrying out audits.

#### **Article 9**

An auditor shall carry out his or her work in compliance with international auditing standards and international standards on quality assurance incorporated into the Icelandic legal order, as provided in Article 31.

#### **Article 10**

The auditor of a group of undertakings is responsible for the auditing of consolidated accounts. The auditor of a group of undertakings shall gather information and review the work of other auditors who have been involved in the auditing of other components within the group. Furthermore, the auditor of a group of undertakings shall ensure access by regulators to the working papers of other auditors relating to the auditing of other components within the group.

In cases where the auditing of certain components within a group takes place in a country outside the European Economic Area, the group auditor shall preserve copies of the working papers of the auditors in question or ensure access to them by other means for regulators and procure the documentation of other auditors. If an auditor is denied access to working papers, the working papers should document the impediments and their reasons.

#### **Article 11**

##### *Report*

On the conclusion of auditing, the auditor shall endorse the subject of the audit by means of a signed report containing information on the audit and the opinion of the auditor. If an audit firm has been entrusted with an audit, the report shall be signed at least by the auditor responsible for the audit on behalf of the audit firm. The audit report shall comply with international auditing standards.

### **Chapter IV. Institute of State Authorised Public Accountants**

#### **Article 12**

Auditors shall maintain a professional association known as the Institute of State Authorised Public Accountants. All auditors are required to be members.

The role of the Institute of State Authorised Public Accountants is to promote professional development in auditing and related fields.

The Institute of State Authorised Public Accountants shall adopt a charter. The Institute shall not engage in activities other than those specifically provided for by law, subject to the fifth paragraph below.

The Institute of State Authorised Public Accountants shall bear the expense of the work entrusted to the Institute by law. The Institute may charge an annual fee from members to cover this expense.

The Institute of State Authorised Public Accountants is permitted to form one or more divisions for purposes other than those specified above. The finances of such divisions shall be kept separate from the finances of the Institute.

#### **Article 13**

The Institute of State Authorised Public Accountants represents auditors before the courts of law and the government as regards issues relating to their profession. In addition, the Institute shall undertake the following tasks in consultation with the Public Auditors' Oversight Board:

1. to establish a Code of Ethics for auditors following confirmation by the Minister of the Code;
2. to promote the regular organisation of courses of study that comply with the requirements relating to continuous education in Article 7;

3. to keep records of the continuous education of auditors;
4. to undertake quality control of the work of auditors;
5. to keep records of the professional indemnity insurance of auditors;
6. to keep records of employees undergoing training pursuant to point 6 of the first paragraph of Article 2.

## **Chapter V. The Public Auditors' Oversight Board**

### **Article 14**

The Minister shall appoint five members to a Public Auditors' Oversight Board for a term of four years and an equal number of alternates; the members shall possess knowledge of fields relating to auditing.

Two members shall be appointed on the recommendation of the Institute of State Authorised Public Accountants, one shall be appointed on the recommendation of the Iceland Chamber of Commerce and two members shall be appointed by the Minister without nomination; one of the last two shall serve as chairman. The chairman shall meet the conditions required for appointment to the office of district court judge. The same shall apply to the appointment of alternates. The majority of the Council shall be composed of persons who have not been employed in auditing work over the past three years.

### **Article 15**

The role of the Public Auditors' Oversight Board is to monitor compliance in their work by auditors and audit firms with the provisions of this Act, the Code of Ethics of the Institute of State Authorised Public Accountants and other rules that apply to the work of auditors.

Specifically, the Public Auditors' Oversight Board shall monitor the following:

1. that auditors meet the conditions for certification;
2. that auditors meet the requirements relating to continuous education;
3. that the professional activities of auditors and audit firms are subjected to regular quality control;
4. that a Code of Ethics and auditing standards are in place.

The Public Auditors' Oversight Board shall co-operate with the competent authorities of a state within the European Economic Area, a state party to the Convention establishing the European Free Trade Association or the Faeroe Islands in monitoring and investigating the work of auditors.

### **Article 16**

The Public Auditors' Oversight Board may take up issues on its own initiative if the Council has reason to believe that an auditor or audit firm has violated this Act, the Code of Ethics of the Institute of State Authorised Public Accountants or other rules that apply to the work of auditors.

Any person who believes his rights have been violated as a result of the actions or inaction of an auditor can refer the complaint to the Public Auditors' Oversight Board for resolution. Cases shall be submitted to the Public Auditors' Oversight Board in writing as promptly as possible and no later than four years after the violation occurred.

The Public Auditors' Oversight Board shall rule on appeals and disputes relating to the work of auditors pursuant to this Act.

The Public Auditors' Oversight Board may, in special circumstances, order a party to a case to pay to a counterparty the cost of proceedings before the Council.

The Public Auditors' Oversight Board may, by means of a reasoned opinion, refer a matter for criminal investigation.

#### **Article 17**

The Public Auditors' Oversight Board shall grant to auditors and audit firms a reasonable period of time to remedy minor deficiencies that may appear in the course of monitoring pursuant to Article 15.

If it appears evident, in the opinion of the Public Auditors' Oversight Board, that an auditor has violated this Act in the course of his or her work in an unacceptable manner, the Council shall reprimand the auditor in a reasoned opinion or recommend revocation of the auditor's licence to the Minister.

#### **Article 18**

The Public Auditors' Oversight Board shall establish its own procedural rules for approval by the Minister.

Decisions of the Public Auditors' Oversight Board are not subject to administrative appeal.

As a rule, the Public Auditors' Oversight Board shall seek expert advice from persons outside the Council concerning matters which do not fall within the areas of expertise of the members of the Council.

Each case shall be adjudicated by a fully constituted Public Auditors' Oversight Board.

If a consensus is not reached on the resolution of a case before the Council, this shall be stated in the Council's opinion, in which case the dissenting members are entitled to include a comment explaining their vote.

The Public Auditors' Oversight Board shall provide courts of law, prosecuting authorities and government authorities with opinions on subjects in the field of auditing.

The Public Auditors' Oversight Board shall prepare an annual report on its activities, which shall be available to the public. All rulings of the Council pursuant to Article 16 shall be published.

All auditors shall pay to the State Treasury an annual fee of ISK 50,000 to cover the cost of the work of the Public Auditors' Oversight Board. The due date of the charge is 1 January, and if the charge is not paid within 30 days of the due date default interest shall accrue pursuant to Chapter III of Act No. 38/2001 on interest and indexation, as amended.

### **Chapter VI. Independence of auditors**

#### **Article 19**

In auditing work, auditors and audit firms shall be independent of their clients, both in reality and in appearance. An auditor shall not carry out an audit if there are any relations between the auditor and the client which are likely to raise doubts with an informed third party regarding the independence of the auditor, such as professional relations, direct or indirect financial relations or business relations other than those resulting from the audit.

An auditor is not permitted to participate in the decisions of the board of directors or management of the party being audited.

In assessing independence, an auditor shall observe the provisions of a Code of Ethics established by the Institute of State Authorised Public Accountants pursuant to point 1 of Article 13. Working papers prepared in the course of auditing shall record all serious threats to independence and specify appropriate preventive measures.

An auditor of a public-interest entity shall each year:

1. confirm in writing to the audit committee of the entity in question that the auditor is independent of the audited entity;
2. report to the audit committee of any services provided to the entity in addition to auditing services;

3. discuss with the audit committee any potential threats to independence and the preventive measures taken to reduce such risk.

## **Article 20**

### *Term of appointment of auditors*

Except as otherwise provided in this Act or in the articles of association of an undertaking or as otherwise agreed, the work of an auditor pursuant to this Act shall continue until another auditor takes over. However, an auditor may resign before the term of appointment is completed, in which case the auditor and, as applicable, the board of directors of the entity in question, shall report the resignation of the auditor and its reason to the Public Auditors' Oversight Board. A contract on auditing cannot be terminated on the grounds of a dispute on accounting rules or audit procedures.

When there is a change of auditors, the auditor taking the post shall contact the departing auditor, who is required to reveal the reasons for the termination of his work. Also, the departing auditor shall grant to the new auditor access to all information which is relevant to the undertaking being audited.

An auditor responsible for auditing a public-interest entity shall rotate from the audit engagement with that entity for a minimum of two consecutive years no later than seven years after being entrusted with the work. The same applies to the auditors of subsidiaries which are of significant importance in the group.

An auditor who signs the auditor's report on the financial accounts of a public-interest entity is not permitted to take up a key management position in the entity in question until at least two years have passed since he or she participated in the audit of the entity.

## **Article 21**

### *Fees*

An audit fee shall be determined so as to enable an auditor to arrive at a reasoned conclusion in accordance with the professional requirements which are provided for in this Act and which generally apply to the work of auditors.

A payment or the amount of an audit fee shall not in any way be subject to any contingency or linked to anything other than the audit.

## **Chapter VII Quality assurance**

### **Article 22**

Audit firms and their employed auditors and auditors working as sole operators are required to undergo a quality assurance review every six years, at a minimum, in accordance with this article.

However, auditors and audit firms responsible for auditing public-interest entities shall undergo a quality assurance review every three years, at a minimum.

The Public Auditors' Oversight Board shall establish rules<sup>1)</sup> on the conduct of quality assurance reviews and the selection of reviewers to ensure that they are independent of the parties who are the subject of review.

An auditor or audit firm which is subject to a quality assurance review shall provide the reviewer with necessary assistance and access to information which may be requested in the course of the review. Provisions of law concerning confidentiality do not restrict the obligation to provide information and access to data.

The Public Auditors' Oversight Board shall annually publish information on the general results of quality assurance.

<sup>1)</sup>Reg. 912/2009.

## **Chapter VIII Termination of auditing licence**

### **Article 23**



A person certified to carry out audits who does not comply with the conditions of law for such certification shall promptly notify the Public Auditors' Oversight Board.

#### **Article 24**

An auditor may turn in his or her certification, in which case his or her rights and obligations as an auditor shall lapse except as otherwise provided by law. An auditor may not turn in his or her certification if his or her affairs are under investigation by the Public Auditors' Oversight Board except with the permission of the Council in the case of minor issues.

If an auditor has turned in his or her certification, the certification shall be granted anew on application without charge if the auditor complies with all the conditions for certification and proves that he or she has complied with the three-year period continuing education requirements.

#### **Article 25**

The licence of an auditor shall lapse on the decision of the Minister:

1. if an auditor does not meet the conditions for certification;
2. on the recommendation of the Public Auditors' Oversight Board, as provided in Article 17;

If an auditor's licence has been revoked pursuant to the first paragraph, a natural person may apply for its renewal provided that he or she meets all the conditions for certification. The licence shall be granted if the applicant passes an examination again pursuant to Article 5. The Minister may grant an exemption from this provision on the recommendation of the Public Auditors' Oversight Board.

The Public Auditors' Oversight Board may recommend to the Minister that the licence of an audit firm to carry out audits should be revoked if the firm is not in compliance with the provisions of this Act.

#### **Article 26**

If the certification of an auditor has been revoked or turned in, the licence issued pursuant to the eighth paragraph of Article 4 shall be promptly returned to [the Ministry].<sup>1)</sup>

<sup>1)</sup>Act 98/2009, Art. 51.

### **Chapter IX Damages and penalties**

#### **Article 27**

An auditor is liable for any damage caused by him/her or his/her employees in the course of their work, by intent or negligence. Evaluation of culpability and proof are subject to the law of tort.

#### **Article 28**

Violation of this Act or any rules established under the Act is subject to fines to be paid to the State Treasury, loss of certification, or up to two years' imprisonment, unless more severe penalties apply under other legislation, whether the violations are committed by intent or out of negligence.

Direct or indirect profit gained by a violation of the provisions of this Act which is subject to fines or imprisonment may be confiscated by a judgment of a court of law.

Attempted violations or participation in violations pursuant to this Act are punishable under the provisions of the General Penal Code.

## **Chapter X Further provisions**

### **Article 29**

#### *Transparency report*

Auditors and audit firms who are involved in auditing public-interest entities shall annually publish on their website a transparency report. The report shall be published no later than three months prior to the end of each financial year.

An audit firm's transparency report shall include at least the following:

- a. a description of the legal structure and ownership;
- b. a description of the legal and structural arrangements of any network of audit firms to which it may belong;
- c. a description of its governance structure;
- d. a description of its internal quality control system and a statement by its board of directors on the effectiveness of its functioning;
- e. information on when the last quality assurance review referred to in Article 22 took place;
- f. a list of public-interest entities for which the audit firm has carried out statutory audits during the preceding financial year;
- g. information on the audit firm's independence rules and confirmation of compliance with the rules;
- h. information on the audit firm's continuing education policy pursuant to Article 7;
- i. information on total turnover, itemised by fees for audit services and other non-audit services in the preceding financial year;
- j. information concerning the basis for partners' remuneration.

The transparency report shall be signed by the board of directors of an audit firm, as provided in Article 3, or by the auditor in question if he or she is a sole operator.

Supervision of transparency reports is entrusted to the Public Auditors' Oversight Board.

### **Article 30**

#### *Confidentiality*

Auditors, their employees, regulators and any persons undertaking any work in the interest of auditors or regulators are bound by confidentiality regarding all matters which may come to their knowledge in the course of their work and which are confidential by law or by nature, except in the event of a court decision to the effect that information should be divulged to the courts or to the police, or in the event of an obligation to provide such information by law. The confidentiality shall be maintained after termination of employment.

Notwithstanding the provisions of the first paragraph, the Public Auditors' Oversight Board is permitted to supply foreign regulators or competent authorities with information, provided that the foreign parties in question meet corresponding requirements of confidentiality and are subject to regulation in their home country. Information received by a regulator from the said foreign parties which is identified as confidential or which is confidential by the nature of the circumstances, shall be subject to the provisions of the first paragraph.

### **Article 31**

The Minister may issue a regulation on the further enforcement of this Act, including the implementation of international auditing standards approved by the EEA Joint Committee.

## **Chapter XI Entry into force, etc.**

### **Article 32**

#### *Transposition*

This Act constitutes the incorporation into the Icelandic legal order of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC, as incorporated into the Agreement on the European Economic Area by a decision of the EEA Joint Committee No. 160/2005.

### **Article 33**

#### Entry into force

This Act shall enter into force on 1 January 2009. ...

#### **Interim provisions**

**I.** The first continuing education period provided for in Article 7 begins on 1 January 2010. Notwithstanding Article 33, the provisions of the third and fourth sentences of the first paragraph of Article 4 of 18/1997 on auditors shall remain in effect until that time.

**II.** Until international auditing standards have been incorporated into Icelandic law, audits pursuant to Article 9 shall be conducted in compliance with generally accepted auditing standards. Generally accepted auditing standards refers to auditing using recognised practices in compliance with international standards on auditing (ISA) issued by the International Federation of Accountants (IFAC), of which the Institute of State Authorised Public Accountants is a member.

**III.** Persons who, prior to the entry into force of this Act, complied with the legal conditions for certification as an auditor or possess a licence to operate as such shall be regarded as compliant with the provisions of point 4 of the first paragraph of Article 2.