

The Government Financial Reporting Act, No. 88/1997

CHAPTER I The government accounts

General provisions on government accounting

Article 1

The accounts of government entities shall be organised in such a manner as to give a clear picture of its operations, assets and liabilities. The provisions of the Accounting Act no. 145/1994 and the Annual Accounts Act no.144/1994 as well as good accounting practices shall apply, unless otherwise stated in this Act.

Government entities

Article 2

Government entities are those which hold government authority and those agencies and enterprises which are majority-owned by the government.

Classification in government accounts

Article 3

The government accounts are divided into the following groups:

1. Group A. This group covers the highest authority of the state, i.e., the Office of the President, the Althing, the Cabinet and the Supreme Court, as well as ministries and government agencies, including funds owned by the government which engage in activity that for the most part is financed with general tax revenue. The same applies to funds engaged in price mitigation and price equalisation, agencies engaged in safety inspection and other surveillance as well as service agencies for government entities which operate according to special acts of law, even if their cost of operations is not financed by general tax revenue. Group A shall also cover the accounts of non-government entities, as long as the Treasury finances all or most of their operations with appropriations or is financially responsible for their operations by law or contract.
2. Group B. This group covers government enterprises operating in the market the costs of which are fully or for the most part financed with revenue from the sales of goods and services to the public and enterprises, whether in competition or under the protection of a monopoly, as long as they are neither joint-stock companies nor unincorporated enterprises.
3. Group C. This group covers lending agencies owned by the government, other than deposit money banks, as long as they are neither joint-stock companies nor unincorporated enterprises.
4. Group D. This group covers government financial institutions, including banks and insurance companies owned by the government, as long as they are neither unincorporated enterprises nor joint-stock companies.
5. Group E. This group covers unincorporated enterprises and joint-stock companies which are owned by the government by more than one-half.

The fiscal year of the government

Article 4

The fiscal year of government entities shall be the calendar year.

The signature of the government accounts

Article 5

The government accounts shall be signed by the Minister of Finance and the State Accountant and shall, for instance, include the statement that the accounts cover all the entities of the government and that it is prepared in accordance with law and standards applicable to government accounting.

Auditing

Article 6

The Auditor General audits and signs the government accounts and the annual accounts of government entities, cf. the National Audit Bureau Act.

The presentation of the government accounts

Article 7

The Minister of Finance shall present the audited government accounts for the previous fiscal year to the Althing no later than two weeks after the Althing convenes in the autumn.

Group A of the government accounts

Article 8

Group A of the government accounts shall be prepared in accordance with accepted accounting standards, as conditioned by Article 1, and must for instance include the following information:

1. A summary of accounts showing:
 1. A statement of income and expenditures.
 2. A statement of assets and liabilities.
 3. A statement of cash flow.

The summaries under Points 1-3 above shall show a comparison with the spending limits for the year and the accounts of the previous year.

2. Notes to the accounts which for instance shall include:
 1. A description of accounting methods.
 2. A record of loans and guarantees which for instance specifies:
 - a. Long-term borrowing.
 - b. Long-term lending.
 - c. Contracts containing financial obligations, for instance due to operations and investments. Contractual obligations and obligations by law shall be shown separately.
 - d. Guarantee commitments.
3. Other summaries that for instance shall include:
 - a. Risk capital in enterprises and funds.
 - b. Investments entered as current expenditure.
 - c. Expenditures in excess of spending limits.
 - d. Changes in the equity account.

Government revenue

Article 9

Government revenue under Group A is as follows:

1. Taxes and imposts levied by the government and collected on the basis of law and not requited with a direct appropriation or service in direct proportion with payments.
2. Operating revenue, i.e. revenue compelled by law for services rendered or operations on behalf of the government, in addition to revenue from assets, punitive charges and fines.
3. Revenue from sales of assets, as conditioned by Article 35.
4. Capital transfers, i.e. income from non-government entities wholly intended to finance investments.
5. Unrequited transfers from other entities.

Tax credits

Article 10

Tax credits which are not refundable shall be subtracted from revenue according to Point 1, Article 9. They shall however be shown separately in the revenue summary of the government accounts.

Refundable tax credits and benefits shall be entered as expenditures.

Collections for other entities

Article 11

In cases of a joint revenue source of public entities which the Treasury collects and divides in fixed proportions, only that part which accrues to the Treasury for its own disposal shall be counted as government revenue. In cases where municipalities are accorded a fixed sum from a joint revenue source, the revenue shall be fully credited with the Treasury and its disposal fully recorded on the expenditure side of the operations account.

The separate revenues of municipalities which are collected by the Treasury shall not be counted as Treasury revenue. Revenues based on law collected by the Treasury, other than those belonging to municipalities, shall be counted as Treasury revenue and their disposal shall be recorded on the expenditure side under Group A of the Treasury accounts.

Assigned revenues

Article 12

Revenues of government agencies from the sales of goods and services sold on a market basis shall be subtracted from expenditures and shown separately in the accounts as well.

The classification of expenditures

Article 13

Expenditures shall be divided amongst the highest authority of the state and ministries; interest charges shall however be shown separately. Special summaries shall show:

1. The classification of expenditures by category.
2. The economic classification of expenditures.
3. The classification of expenditures by agencies and projects.
4. The disposal of funds that have been appropriated without assignment to individual ministries or to the Cabinet with a classification by project and category as applicable.

Durable operational assets

Article 14

Expenditures on durable operational assets of government entities under Group A shall be entered as expenditure in the fiscal year when a binding contract is made for their purchase. Construction contracts shall be entered as expenditure in the accounts in accordance with the progress of the project if it is not completed during the fiscal year.

Assets off the balance sheet

Article 15

A special register of assets shall be kept annually covering the durable operational assets of the government. It shall be broken down by asset category and its conclusions shall be published with the government accounts.

Groups B and C of the government accounts

Article 16

Groups B and C of the government accounts shall at least contain a summary version of the annual accounts of government enterprises and financial institutions under Points 2 and 3 of Article 3.

The Minister shall issue a Regulation with details on the summary version of annual accounts according to Paragraph 1.

Groups D and E of the government accounts

Article 17

Groups D and E of the government accounts shall show the key figures or a summary version of the annual accounts of financial institutions and companies, cf. Points 4 and 5 of Article 3.

CHAPTER II
Annual accounts
The composition of annual accounts

Article 18

The annual accounts of entities in Group A shall contain the same information as specified in Article 8, as applicable. The minister concerned and the Minister of Finance may request key indicators regarding activity and performance of government agencies to publish with the annual account in addition to the provisions of Article 8.

The provisions of laws regarding annual accounts shall apply to the annual accounts of government entities outside Group A or provisions of special laws if they require equal or greater details in annual accounts.

The signature of annual accounts of entities in Group A

Article 19

The annual accounts of entities in Group A shall be signed by the director and chief accountant of the entity concerned. The provisions of Article 49 apply to the responsibility for the annual accounts.

Deadlines for annual accounts

Article 20

All entities under Group A shall complete their annual accounts and register of assets within two months from the end of the fiscal years and turn in to the State Accounting Office, the ministry concerned and the National Audit Bureau. The State Accounting Office may extend the deadline by up to 30 days.

Entities outside Group A shall turn in their annual accounts to the State Accounting Office and the ministry concerned no later than 31 March each year. The State Accounting Office may extend the deadline by up to 30 days.

Those non-government entities referred to in the third sentence of Point 1, Article 3 shall turn in their annual accounts to the State Accounting Office, to the ministry concerned and to the National Audit Bureau within the time limit referred to in Paragraph 1.

Each ministry shall see to it that agencies under its control according to the Administration Act and Regulation fulfils the provision on deadlines for turning in annual accounts.

CHAPTER III
The fiscal budget bill
General provisions

Article 21

The Minister of Finance shall present a fiscal budget bill covering Groups A, B and C for the next fiscal year to the Althing as soon as it convenes in the autumn. The bill shall be on an accrual basis cf. Article 1 and it shall present projected cash flows as well. An authorisation shall thus be sought in advance for payments from the Treasury, for the forfeiture of claims and for an authority to conclude agreements involving financial commitments for the Treasury and government agencies.

The fiscal budget bill shall be formulated with regard to the Cabinet's economic forecast. Projections for revenue and expenditure shall be made on the same principal assumptions as the economic forecast.

The budget proposals of entities in Groups A, B and C shall be turned in with each ministry concerned. Each ministry shall turn in its budget proposals to the Ministry of Finance according to rules set by Regulation.

The Presiding Committee of the Althing shall each year formulate a proposal for budget appropriations to the Althing and its agencies in accordance with the provisions of the Althing Procedures Act within the generally applicable time limits, cf. Paragraph 3, and in accordance with Paragraph 2 and turn it in to the Prime Minister.

The same applies to the supplementary fiscal budget bill, cf. Article 44.

Group A of the fiscal budget bill

Article 22

The fiscal budget bill shall show a projection for the operations account of government entities in Group A as well as accounting for the projected cash flow and credit transactions of the Treasury.

Treasury revenues shall be shown by main revenue category and principal tax sources. Both the assessed taxes and imposts as well as collected revenue shall be shown.

The expenditure of the Treasury shall be shown by areas of responsibility and expenditure projects. Expenditures shall be shown on an accrual basis, cf. Paragraph 1, Article 21, thus showing commitments less assigned revenue. The financing of expenditures shall also be shown.

Appropriations shall be shown by expenditure projects and be divided into general operations expenditure, maintenance expenditure and capital expenditure. The credit transactions of the Treasury shall be divided into long-term or short-term credit transactions.

Earmarked revenue sources and expenditures bound by law

Article 23

If the fiscal budget bill is based on the assumption of changes in revenue sources bound by law or in Treasury expenditures bound by law, the changes in the relevant laws shall be incorporated into the fiscal budget bill. The period of validity of changes according to this Article shall be the same as that of the fiscal budget. The fiscal budget bill shall contain a special section on the position and disposal of earmarked revenues and expenditures bound by law.

Notes explaining revenues and expenditures of the Treasury

Article 24

The fiscal budget bill shall contain notes explaining the revenue projections of the Treasury and the expenditure intentions of the highest authorities of the state, ministries, government agencies, government enterprises and financial institutions. Explanations shall be given for the disposal of funds and material changes from one year to the next. A description shall also be given of the main projects of individual government entities, the value of investments and the purpose of grants to private parties.

The highest authorities of the state, ministries, government agencies, government enterprises and financial institutions are obligated to provide the Minister of Finance with information he deems necessary for the formulation of the bill.

Group B and C of the fiscal budget bill

Article 25

Group B and C of the fiscal budget bill shall show a projection of current operations, dividends, investments, borrowing and lending of individual agencies in Group B and C of the government accounts.

Special summaries shall show a breakdown of the operations account and cash flow.

Borrowing, relending and guarantees

Article 26

The fiscal budget bill shall seek authorisation for borrowing, lending and government guarantees for the fiscal year. The notes shall contain an overview of total borrowing of government entities, lending to individual entities outside Group A and the granting of government guarantees and their breakdown by main guarantee category.

Projections of investments and borrowing requirements

Article 27

The fiscal budget bill shall contain a projection of public investment and borrowing requirements. The preparation of this projection shall be made by the Ministry of Finance which shall lead it in co-operation with entities concerned. It shall for instance contain the following items:

1. A projection of public investment and a forecast of total investment. This should for instance cover financing and the disposal of funds by the Treasury, government enterprises and other public entities.
2. A projection of lending and financing of investment credit funds and the cash flow of pension funds.
3. A comprehensive projection of borrowing by public entities.
4. A summary of the nation's foreign commitments and the projected repayments of principal and payments of interest on foreign debt not less than for the next three years.
5. A summary and forecast for the credit and money market as a whole.

Long term projection

Article 28

A projection of government finances for the next three years following the next fiscal year shall accompany the fiscal budget bill each year. It shall outline the prospects for government finances with a view towards general economic conditions on one hand and the policy of the government with respect to fiscal finances on the other. The projection shall include an assessment of the fiscal impact on the economy and employment, intentions for the procurement of revenue and the division of expenditure, appropriations for investment and a summary of the government's debt operations and debt service.

Once the fiscal budget bill has been passed into law the long term projection shall be reviewed and placed before the Althing if significant changes have taken place in its premises.

CHAPTER IV

The implementation of the fiscal budget

The disposition of assets and contracts under Group A

Article 29

Government entities under Group A shall in each instance seek legal authorisation in order to purchase, sell, exchange or enter into a long term lease for the following assets:

1. Real property.
2. An asset share in companies.
3. Ships and aircraft.
4. Museums, collections or parts thereof that contain assets of cultural value.
5. Other assets of significant value, not specified under Points 1 to 4 of this Paragraph, unless otherwise determined in the provisions of this Chapter.

Despite the provisions of Paragraph 1, the rental of assets according to Paragraph 1 shall be permitted, if this applies to a normal operational rental, provided the minister concerned and the Minister of Finance agree.

Article 30

Individual ministers may, with the agreement of the Minister of Finance, conclude a project contract and an operations contract that come under the ministry, for a period exceeding one year with the government agency that has performed the operation in the past, with other government agencies, municipalities or private entities as long as appropriations for the project or operation are available in the fiscal budget. The term operations contract refers to specific segments of operations or the operation of a government agency as a whole in respect of activities which the government must perform and pay for by law or constitute a part of activities that a government entity must perform.

A private entity will nevertheless not by contract cf. Paragraph 1 be entrusted with public power to make decisions on the rights and duties of persons unless a special authorisation exists in law. If such contracts are concluded, the provisions of the Administrative Procedures Act and the Information Act as well as the general rules of administrative justice, apply to such public administration entrusted to a contractor. The provisions of laws regarding the dissemination of information and access to information regarding environmental matters shall in the same manner apply to a contractor and its obligation to inform.

A government agency under Group A shall be authorised without the initiative of the minister to conclude a contract regarding specific operational projects, as long as it does not concern activities that include the power to make decisions regarding the rights and duties of persons, and the cost of the project does not constitute a significant part of the total expenditure of the agency.

A contractor and his employees shall be bound by confidentiality regarding knowledge gained while the operations project is being implemented and which shall remain confidential. The provisions of Article 18 of the Government Employees Act no. 70/1996 apply regarding confidentiality and a violation thereof shall be punishable according to Article 136 of the Penal Code no. 19/1940.

A contract for an operations project according to this Article shall include a definition of the content and quality of the service purchased by the Treasury, the length of the contact period, payment by the Treasury, inspection of the service and the handling of disputes. The Public Purchasing Act applies to the tenders for operations projects. The contract period shall not exceed six years; a longer contract period is only permitted if the contractee requires the contractor to set up a costly project or equipment because of the project. The notice period for terminating a contract shall not be less than three months. The Minister of Finance shall set specific Regulations on the preparation of contracts, their implementation and inspection thereof according to this Article and on the general qualifications of the contracting parties, such as their financial capacity, skill and knowledge and their means to carry out the project.

The provisions of this Article and the Regulations set according to it shall apply in the same manner to contracts for operations projects concluded according to authorisations in other laws, cf. Paragraph 2, unless more stringent requirements for contracts are set in separate laws.

The notes to the fiscal budget bill shall specify the intentions for contracts during the fiscal year and the projections for the cost thereof for the next three fiscal years. An explanation of the goals and advantage of the government from such intended contracts shall also be explained.

Assets purchased through compulsory auctions and their disposition under Group A

Article 31

Entities under Group A may purchase assets without a specific authorisation by law at a compulsory auction on the basis of a lien or other collateral behind a guarantee commitment fallen due.

Assets purchased according to Paragraph 1 shall be sold as soon as convenient.

Transactions on credit terms in Groups A and B

Article 32

Entities under Groups A and B are authorised to engage in transactions on credit terms as long as they are within budget cash limits; such credit terms shall always specify the terms of payment in such transactions. The Minister of Finance shall set a Regulation regarding transactions on credit terms or on account.

An unforeseen payment obligation under Group A

Article 33

If unforeseen circumstances make it inevitable that payment must be made from the Treasury without an authorisation in the fiscal budget, the Minister of Finance shall, after having consulted the minister concerned, be authorised to make such a payment, provided it can not wait. The Minister of Finance is obligated to inform the Budget Committee of the Althing of such unforeseen payments as soon as a decision has been taken and seek authorisation in a supplementary fiscal budget bill.

Article 34

If wage agreements are concluded which call for further wage payments by the government than assumed in the fiscal budget, authorisation shall be sought from the Althing as soon as possible through a supplementary fiscal budget bill. Wage payments shall nevertheless be made in accordance with the new wage agreements.

The disposition of liquid assets under Group A

Article 35

Government entities under Group A are authorised without a special authorisation by law to sell sundry equipment they have used for their operations, such as vehicles, machinery, equipment and other implements. The sales proceeds shall be turned in to the Treasury, unless the Minister of Finance authorises the government agency to dispose of the proceeds for the renewal of implements.

Gifts to Group A

Article 36

When a government entity under Group A decides to accept a donation with conditions attached that inevitably lead to expenditure increases for the Treasury, the donation should be accepted with the condition that the Althing agrees, since such expenditure had not been anticipated in the fiscal budget. A government entity under Group A is in the same manner not permitted to donate or hand over without compensation assets, unless authorisation is received in advance in the fiscal budget.

The carry-over of excess expenditure and unused appropriations under Group A

Article 37

The transfer of budget cash limits between individual operations projects of each entity under Group A is permitted, as long as the projects are specified in the fiscal budget.

The carry-over of unused funds at the end of the accounting year is permitted, provided the minister concerned and the Minister of Finance agree. The subtraction of debts from the previous year from the years's appropriations is permitted in the same manner.

The carry-over of borrowing authorisations

Article 38

The carry-over of unused borrowing authorisations into the new year is permitted. The borrowing authorisations shall lapse if they have not been used before 1 April of the year following the fiscal year when they were granted.

The holding of funds under Group A

Article 39

Government entities under Group A may keep their own bank accounts, upon having received the consent of the Minister of Finance and with the conditions he imposes.

Monthly and part-year statements for Group A

Article 40

The Treasury's position shall be stated monthly. At least once within the accounting year the Ministry of Finance shall disclose special commitments and claims incurred by the Treasury that have not fallen due for payment. The Minister of Finance shall at least once during the accounting year report on the prospects for government finances and credit finances and the main deviations from the fiscal budget as regards entities under Group A.

Financial commitments of Groups B and C

Article 41

Upon the agreement of the Minister of Finance and the minister concerned, entities under Groups B and C are authorised to enter into further financial commitments than anticipated in the fiscal budget, as long as it is necessary to ensure the normal operations of the enterprise.

Disposal of operating profits of Groups B, C and D

Article 42

Entities under Groups B, C and D shall turn in a normal share of their profits as dividends to the Treasury according to closer rules set by the Minister of Finance by regulation after having consulted the minister concerned, as long as other laws do not state otherwise.

CHAPTER V

The supplementary fiscal budget bill

General provisions regarding the supplementary fiscal budget bill.

Article 43

If the need arises, authorisation shall be sought in a supplementary fiscal budget bill for further fiscal appropriations than anticipated in the fiscal budget for the year.

The supplementary fiscal budget bill within the fiscal year

Article 44

In cases where unforeseen circumstances, wage agreements or new legislation make it necessary to resort to special fiscal measures not anticipated in the fiscal budget for the year, authorisation for them shall be sought in a supplementary fiscal budget bill. Authorisation for fiscal measures of this nature that must be resorted to after the passage of the supplementary fiscal budget bill shall be sought in the final fiscal budget, cf. Article 45.

Other measures for amended spending authorisations than dealt with in Paragraph 1 shall generally be referred to the decision of the Althing in connection with the passage of the fiscal budget for the following year.

The final fiscal budget bill for confirmation of the government accounts

Article 45

A final fiscal budget bill shall be presented with the government accounts which are presented to the Althing according to Article 7 for the purpose of their confirmation. Authorisation shall be sought to settle debts or unused appropriations which are not transferred between years. A special register shall be presented for spending authorisations that are carried over and for those entities that have exceeded spending limits for the year. Such excess may be met out of appropriations for the following year. A register of unused borrowing authorisations for the past year shall also be presented.

CHAPTER VI

Sundry provisions

The government accounts committee

Article 46

The Minister of Finance appoints a government accounts committee to advise him on the presentation of the fiscal budget and the government accounts and other material of importance to the accounting systems that are intended to be embodied in this Act.

Should there be doubt as to the interpretation of this Act or its implementation, the opinion of the government accounts committee shall be sought before a decision is made or a regulation is issued.

The appointment of the government accounts committee

Article 47

The government accounts committee shall be composed of six members. The Secretary General of the Ministry of Finance, the State Accountant, the Auditor General and the Director of the Statistical Bureau of Iceland shall sit on the committee in addition to two members appointed by the Minister of Finance upon nomination by the Central Bank of Iceland and the National Economic Institute. The Minister appoints the chairman of the committee from amongst the members of the committee.

The State Accounting Office

Article 48

The State Accounting Office is a separate agency under the Minister of Finance. The State Accountant heads the State Accounting Office and is appointed by the Minister of Finance for a term of five years.

The State Accounting Office supervises the accounting and annual accounts of government entities in Groups A, B and C of the government accounts. Accounting practices shall be uniform.

The State Accounting Office shall assist and advise government entities in their accounting practices and set Rules for entities in Groups A, B and C of the government accounts in respect of implementation and working practices along with guidelines that may be of importance for bookkeeping entries and the annual accounts.

The State Accounting Office shall formulate the government accounts.

Fiscal responsibility

Article 49

The heads and Boards of Directors of government entities are responsible that their financial measures are in accordance with spending limits. They are also responsible that the annual accounts are in accordance with this Act and that they be turned in to the State Accounting Office.

A violation of the provisions of this Act shall be regarded as a violation of the duties of government employees in accordance with the Government Employees Act.

Article 50

This Act applies to the finances of the Althing unless it states otherwise. The Presiding Committee of the Althing, having consulted the Minister of Finance, shall make decisions pursuant to Paragraph 2 of Article 29, Article 32, Paragraph 2 of Article 37 and Article 39.

CHAPTER VII

Regulations and entry into force *Authorisation for setting Regulations*

Article 51

The Minister of Finance is authorised to decide further on the implementation of this Act by Regulation Regulation 530/1975, cf. 208/1987. Regulation 533/1975..

Entry into force

Article 52

This Act enters into force forthwith and shall be applied in the preparation of the 1998 fiscal budget bill and the closing of the government accounts for that year. Upon entry into force of this Act, Act no. 52/1966 on the State Accounting Office, the Government Accounts and the Fiscal Budget with subsequent amendments and Act no 103/1974 on Borrowing by the Treasury and Government Enterprises are abolished. The closing of the 1997 government accounts shall nevertheless be in accordance with Act no. 52/1966.

Temporary provision

Contracts on operations projects for a period exceeding one year for which the Treasury pays and do not fulfil the provisions of Article 30 of this Act shall be reviewed before September 1, 1997.