

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GRFS 0 - General issues relating to accounting services assignments

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0.1 Basis and definitions

0.1.1 Framework, purpose and scope

0.1.1.1 Framework

The practice of external accountancy is regulated by the Act No. 109 of 18 June 1993 (the Accountants Act). The (Norwegian) Accountants Act requires that people who engage in such business be authorized accountants. Section 1 of the Accountants Act states the following:

Anyone undertaking the business of financial reporting for others, cf. Section 2, the first subsection, must be authorized by the Financial Supervisory Authority of Norway in accordance with this statute.

The Financial Supervisory Authority of Norway may by regulation or administrative decision make exceptions from the authorization requirement and in ambiguous cases determine whether the statute shall apply.

An authorized accountant shall use the occupation designation "authorized accountant". Companies which are referred to in Section 6 must use the term "Authorized accounting company" in connection with their name.

In the regulations of 8 February 1999 for the Accountants Act (the Accountants Regulations) duties in pursuance of the Accountants Act are described in further detail.

There is a series of associated statutes which govern the material substance of the activities conducted. Moreover, there are regulations (some quite comprehensive) which have been laid down pursuant to these statutes. Most important are the Act relating to bookkeeping of 19 November 2004 and the Act relating to annual accounts of 17 July 1998, No. 56. Furthermore, the Tax Assessment Act of 13 June 1980, No. 24 is important with regard to responsibility for tasks and information given to tax authorities. Other corresponding legislation includes the Limited Liability Companies Act of 13 June 1997, Nos. 44/45, the VAT Act of 19 June 1969, No. 66, the Inheritance Duty Act of 19 June 1964, No. 14, the Act concerning sales tax of 19 May 1933, No. 11, the Money Laundering Act of 20 June 2003, No. 41 and the Partnerships Act of 21 June 1985, No. 83.

This standard provides additional clarification of general conditions that apply to accounting services assignments. In addition to this standard, other standards within specific assignment areas have been prepared. The standard must be seen in the context of these¹.

0.1.1.2 External accountancy activities

The standard applies to external accountancy activities where an accountant undertakes the business of financial reporting for others. The Principal's own responsibility for complying with the accounting requirements is completely incumbent upon the Principal himself, who is legally bound to maintain accounting records. The Principal may not, by entering into any agreement, transfer this responsibility toward a third party to the Accounting Firm.

The accounting firm's responsibility is stated in contractual documents and legislation, including in particular Section 2 of the Accountants Act, second subsection.

0.1.1.3 Purpose and scope

The purpose of the standard is to express which preconditions the external accounting firm must normally fulfil in order to take on assignments.

The standard applies to anyone who is an authorized accountant pursuant to the Accountants Act, but is at the same time limited to employment through a business which undertakes financial reporting for others.

The standard indicates mandatory requirements with bold fonts, given that the respective requirements come in under tasks which it has been agreed to expedite in accordance with the accounting services agreement. These have also been summarized in Chapter 0.6. The other contents in the standard consist of recommendations. However, the entire standard must be taken as a whole, as the supplementary text, in addition to giving specific guidance, elaborates upon and explains the contents of the fundamental principles and activities necessary to comply with the requirements on business activity in keeping with Generally Accepted Accounting Principles.

The user of the standard must take into account the fact that the accounting sector is in a continuous process of development, for example as a result of technical innovations, statutory matters and market adaptations. The result of this is that solutions other than those adhering to the letter of the standard may be fully acceptable, as long as they as a minimum conform with the same quality level. The accounting

¹ Cf. GRFS 1 - Bookkeeping and annual accounts, as well as the preliminary standards GRFS 2 – Payroll and GRFS 3 – Invoicing

firm must be able to account for any non-conformity in relation to the standard, and it is incumbent upon the firm that such non-conformities satisfy the requirements of the standard.

0.1.2 Definitions

0.1.2.1 Authorized accountant

Authorized accountant means a person who is authorized in accordance with the Accountants Act.

0.1.2.2 Accountancy activities

The term accountancy activities is used in this standard to mean both authorized accountants who operate sole proprietorships and authorized accounting companies.

0.1.2.3 Responsible for the assignment

Responsible for the assignment means the person named in the accounting services agreement as the responsible authorized accountant.

An authorized accountant without responsibility for the assignment has an independent responsibility with regard to his/her authorization to ensure that his/her own work is carried out in a proper manner in accordance with the accounting services agreement, as well as applicable statutes and regulations.

0.1.2.4 Employee

Employee means anyone who is involved in the operation of the Accounting Firm.

0.1.2.5 Principal

Principal means the counterpart to the agreement for whom the Accounting Firm shall carry out professional services.

0.1.2.6 Accountancy

The Accountants Act defines *accountancy* as the discharging of the Principal's duties pursuant to the body of accounting and bookkeeping legislation as well as preparation of statements and information for the principal which the principal must submit pursuant to statutes or regulations.

The agreement with the Principal may be extended or limited in relation to this definition, but normally the scope will encompass the process from when the Accounting Firm gains access to the Principal's documentation and up to and including the preparation of contractual reports and public statements.

0.1.2.7 Documentation

Documentation means the material which constitutes the basis for the bookkeeping, cf. Section 10 of the Bookkeeping Act, cf. Section 11.

The documentation may be received from external parties or be prepared internally by the Principal or the Accounting Firm.

0.1.2.8 Accounting materials

The term accounting materials means documentation as referred to in section 0.1.2.7, in addition to the reports and statements which are prepared by the Accounting Firm.

0.1.2.9 Report

Report means written notification of results of what has been recorded and observed, here preferably based on accounting which has been carried out.

0.1.2.10 Period

Period means the period of time to which the activity or the result is typically related.

The periodic closing of accounts will for example entail that the accounts are closed at set, regular intervals, for example, monthly. Correspondingly, a period may comprise a term, for example, a bimonthly value added tax term.

0.2 Preconditions for undertaking assignments

0.2.1 Routines

The accounting firm shall at all times evaluate the need for internal routines, so that the Principal's interests are safeguarded in a prudent manner. The routines must be established in writing if essential for ensuring implementation, and in that case they must be readily available to all employees and accounting supervision.

The accounting firm must be able to justify the prudence of their arrangements for implementation of the job.

The accounting firm must in addition establish prudent internal review and communication routines which ensure the fulfilment of duties pursuant to the Money Laundering Act².

The number of employees, their qualifications and the complexity of the assignments are factors which must be taken into consideration in this connection.

0.2.2 Requesting a statement about a new assignment

In connection with the establishment of a new assignment, where the Principal has recently taken delivery of corresponding services from another accounting firm, a statement about the assignment shall normally be requested from that firm. This applies even though the accounting services agreement has not yet been formally terminated. The Principal must be notified that a statement is being obtained.

² Cf. Section 13 of the Money Laundering Act of 20 June 2003, No. 41

Such a statement, to the extent that the former accounting firm makes this possible, must be obtained before the Accounting Firm enters into an accounting services agreement with the Principal. However, the inquiry must not take place before the Principal has accepted the tender of the Accounting Firm for performing the accounting services.

The former Accounting Firm may demand to have the inquiry confirmed in writing, but determines itself whether its statement will be made in writing or orally. Particularly in instances where censurable matters regarding the Principal will be brought up, the former Accounting Firm should ask to have the inquiry confirmed in writing.

The former Accounting Firm must as a minimum provide information in its statement about conditions in connection with last year's work performance which entail breach of the accounting services agreement, for example that:

- The Accounting Firm has not been given the opportunity to do its job in a proper manner, such as by not receiving the relevant accounting documentation³
- The Accounting Firm believes that an attempt has been made to order the Accounting Firm to perform its tasks in violation of statutes and regulations
- The Principal has not paid the Accounting Firm's fee or other claims when due

Issues which are pointed out should preferably be raised in writing with the Principal.

The former Accounting Firm must submit a statement without undue delay. The statement may be given without impediment of client confidentiality⁴.

Both of the Accounting Firms must document their statement in the job documentation⁵, either in the form of a written opinion or as notes of a conversation.

The contents of the statement of the former Accounting Firm may be communicated to the Principal.

It is not necessary to obtain a statement as mentioned in the first paragraph if the Accounting Firm is well-acquainted with the performance of assignments for the Principal. The same applies to short-term jobs, as well as to jobs with a limited scope where a statement cannot be expected to have significance for the performance of the job. The evaluations which entail that a statement may not be obtained, must be recorded internally and included in the job documentation.

0.2.3 Fees

The Accounting Firm must, upon the request of the Principal, give an account of its fee calculation.

If special circumstances in connection with a job entail that the fee will be significantly higher than expected, the Accounting Firm should bring this to the attention of the Principal as early as possible and provide an explanation for the reason.

³ Cf. Item 0.1.2.7

⁴ Cf. Section 10 of the Accountants Act and Section 3-1 of the Accountants Regulations

⁵ Cf. GRFS 1, 2 and 3, for example GRFS 1 – Bookkeeping and annual report and accounts, Chapter 1.5

0.2.4 Capacity

The Accounting Firm must in general have sufficient capacity to perform jobs in accordance with the accounting services agreement and the requirements made with regard to the quality of job performance.

The firm must evaluate its capacity vulnerability and facilitate measures such that Principals and its own business sustain as little loss as possible in situations where the capacity is lower than normal. One example of a measure that may be mentioned is to have a support agreement with another accounting firm.

0.2.5 Qualifications

The Accounting Firm must have sufficient competence to carry out the job in accordance with the accounting services agreement.

The number of authorized accountants in the firm shall be sufficient for the implementation of prudent quality control.

0.2.6 Confidentiality

0.2.6.1 Regulation

The Accounting Firm's obligation to observe confidentiality is regulated in the Accountants Act ⁶, and entails that the business is obliged to maintain confidentiality with regard to information of which it becomes aware while carrying out its assignment.

Nevertheless, the confidentiality obligation does not apply to exceptions which follow from the Accountants Act, special legislation, the accounting services agreement or through permission from the Principal. The Accounting Firm is required to assist public supervisory authorities as necessary in providing access to the accounting system and the accounting material, as well as making available equipment and application software for this purpose ⁷. However, this obligation is limited to the work the Accounting Firm has performed, as well as the material and systems which the Accounting Firm has at its disposal.

0.2.6.2 Limitation of information

The Principal should be urged to inform in writing as to whom on the Principal's staff shall be given information. If the scope of the information is to be limited, this must be stated in particular in the accounting services agreement.

0.2.6.3 External assistance

If, while carrying out the assignment, the Accounting Firm needs to refer to facts of the case or other information relating to the Principal in conversation or in writing to an external third party, this reference must be of such an anonymous nature that the third party cannot trace to whom the matter applies.

⁶ Section 10 of the Accountants Act

⁷ Cf. Section 14, second subsection of the Bookkeeping Act

0.2.6.4 Declaration of Confidentiality

The Accounting Firm must ensure that all employees in the Firm submit written declarations of confidentiality.

The duty of confidentiality is permanent. Thus it also applies after completion of the job for the Principal, and also as the case may be, after conclusion of the employee's employment.

0.2.7 Internal control

The Accounting Firm must ensure that its operations are conducted prudently and provide assurance of correct fulfilment of duties according to statutes and agreements, as well as that which at any time must be regarded as being generally accepted principles for external accounting.

At least once a year, a review must be conducted of significant risks and the internal control measures which safeguard against these. In this context, the Accounting Firm must be able to account for its risk assessment and why it considers the internal control satisfactory.

0.2.8 Processing of information and documentation

0.2.8.1 Safekeeping

Documentation must be stored in an orderly and reassuring manner.

The Accounting Firm must ensure that the information recorded by the Accounting Firm which in principle is available electronically, fulfil Section 13, second subsection of the Bookkeeping Act, relating to continued electronic accessibility. This applies to the entire duration of the assignment⁸.

0.2.8.2 Relinquishment requirements

Submitted documentation must be relinquished at the request of the Principal.

If such relinquishment entails that mandatory reporting cannot be carried out by the Accounting Firm, the Principal must be informed in writing.⁹

The Accounting Firm cannot exercise the right to retain the Principal's documentation, even though remuneration for work performed has not been effected. The same applies to other accounting materials for which remuneration has been made.

0.2.8.3 Submission to supervisory authority

When the Accounting Firm is to submit the Principal's accounting material to the supervisory authority, this must take place on the basis of special legal authority relating to the duty of submission or in accordance with the written consent of the Principal.

Upon submission, the Accounting Firm shall require that the recipient signs for what is submitted to the supervisory authority.

⁸ Cf. Item 0.2.8.5

⁹ Cf. Section 3-1, subsection 6 of the Accountants Regulations

The Accounting Firm cannot exercise the right to retain the Principal's documentation, even if remuneration for work performed has not been made. The same applies to other accounting materials for which remuneration has been made.

0.2.8.4 Submission to debt negotiations committee and receiver

Pursuant to the Insolvency Act¹⁰ the Accounting Firm is obliged to submit to the debt negotiations committee and receiver the accounts and accounting materials of the debtor, even if remuneration for work performed has not been made. Furthermore, the Accounting Firm is obliged to assist the debt negotiations committee free of charge with information relating to the debtors accounting and business conduct.

0.2.8.5 Cessation of assignment

When operations cease, the Principal's submitted documentation shall be returned as soon as possible.

The same applies to contractual reports and statements, produced by the Accounting Firm, when said Firm has received contractual settlement for that which it has produced.

Where recorded information in principle is available electronically from the Accounting Firm, this information must be made available to the Principal so that the Principal may comply with the requirement in Section 13, second subsection of the Bookkeeping Act. The parties may elect to enter into a separate agreement to the effect that the Accounting Firm shall attend to such storage.

If the Accounting Firm can not return accounting material as a result of cessation of business operations on the part of the Principal, then affected parties must be notified with a reasonable deadline for indicating their interest in having the accounting material handed over. Affected parties normally include the following: owners with personal liability, board members, general managers, bankrupt estates, local police authorities, county tax offices, tax assessment offices, municipal treasurers and auditors. If no one indicates interest by the deadline, the material may be destroyed.

0.2.8.6 Electronic information

The Accounting Firm must have routines which safeguard and preserve electronic information in unforeseen incidents.

This includes for example incidents such as breakdown of machinery, fire, theft, sabotage and power outage.

Such safety routines include backup copying of electronically stored information and the capability to reinstall essential software within a reasonable space of time. Backup copies must be stored in fireproof cabinets fitted out for that purpose or off the premises.

0.2.8.7 Shredding

All sensitive materials which are not archived must be made unreadable.

¹⁰ Cf. the Insolvency Act of 8 June 1984, No. 58, Sections 18 a and 101,

Physical documents shall be shredded. Electronically stored documents shall be deleted from their storage media.

If storage media are to be thrown away, sold or in some other manner pass from the control of the Accounting Firm, the information must be safeguarded so that it cannot be read using ordinary reading procedures.

0.2.9 Hardware and software

0.2.9.1 Usage rights

The Accounting Firm must have legitimate usage rights to all application software and at all times have the correct number of licenses of the software which is used.

0.2.9.2 Maintenance

The Accounting Firm is responsible for keeping the application software which the Accounting Firm uses in carrying out the job up-to-date in accordance with appropriate legislation. Furthermore, the Firm must be able to handle operating problems with software and hardware, if necessary, by having a support agreement with a software supplier.

Accounting Firms operating with networks must have access to expertise which ensures the continuity of operations.

0.2.9.3 Anti-virus protection

All work stations and servers must have satisfactory anti-virus protection.

Software for anti-virus protection must be kept up-to-date on an ongoing basis.

0.2.9.4 External operation of critical ICT

When an external supplier is selected to operate an ICT installation which is critical to the Accounting Firm's operations, typically an accounting, salary and annual report and accounts system, the agreement with the supplier or other basis in law shall stipulate that the Accounting Firm can fulfil the requirements related to information processing, documentation and operation of application software in accordance with Generally Accepted Accounting Principles. The Agreement must also stipulate that the Accounting Firm itself or with the aid of hired assistance, be granted the right to inspect and review those activities of the supplier which are related to the agreement, as well as safeguarding the processing of confidential information.

Furthermore, the Financial Supervisory Authority of Norway shall be given access to information from and supervision of the supplier where the Financial Supervisory Authority of Norway finds it necessary as part of its supervision of the Accounting Firm.

0.2.10 Insurance

The Accounting Firm shall at all times evaluate their overall insurance needs.

An important aspect of this assessment is the need to ensure that the Accounting Firm does not directly or indirectly inflict economic damage upon the Principal. Property damage insurance is an important policy instrument in this respect. For remittance assignments, consideration should also be given to whether insurance coverage should be extended to include embezzlement coverage. In addition, reconstruction and consequential loss insurance should be considered.

0.3 Accounting services agreement

0.3.1 Duty to contract

A written accounting services agreement must be established with all Principals¹¹.

The Accounting Firm must enter into separate accounting services agreements with each individual legal entity. A corporate agreement may cover several wholly-owned subsidiaries. In that case, there must be an overview of the companies covered by the agreement.

0.3.2 Requirements for the contents of the agreement

The accounting services agreement must indicate which accounting functions, i.e. bookkeeping and reporting tasks, etc., the Accounting Firm has assumed.

The accounting services agreement must not in any way give the Principal the impression that the Principal's own responsibility can be reduced through the use of external accountants.¹²

In addition to accounting functions, "other jobs" must be stipulated in the accounting services agreement. This applies to any independent assignment which the Accounting Firm commits itself to carry out for payment.

The accounting services agreement must regulate how personal data must be handled. Security measures must also be implemented to ensure satisfactory data security as described in the Personal Data Act¹³.

0.3.3 Specification of the parties and signatures

The accounting services agreement must provide an adequate, clarifying description of the parties to the agreement, corresponding to accounting and company law terms. The agreement must be signed by persons who can enter into binding agreements on behalf of the parties in accordance with ordinary contract law and company law.

However, in those cases where the Principal has received a correct, adequate agreement signed by the Accounting Firm, and cooperation in accordance with the agreement has been initiated, it may be assumed under contract law that the wording of the agreement has been accepted by the Principal as implied by conduct¹⁴. In such cases an exception may be made in which it is accepted that the accounting services agreement has only been signed by the Accounting Firm. The Accounting Firm must nonetheless, within reason, work to have the agreement signed.

¹¹ Cf. Section 3 of the Accountants Act

¹² Cf. Section 0.1.1.2.

¹³ Cf. Section 15 of the Personal Data Act, cf. Section 13

¹⁴ Conduct which is legally binding.

0.3.4 Changes in the term of the agreement

The Accounting Firm must on an ongoing basis make sure that the agreements cover changes to the assignments, and that they cover the requirements in the Accountants Act with associated regulations.

Changes in the contractual relationship must be effected through contractually binding changes, if necessary in the form of a new, revised accounting services agreement.

0.3.5 Breach

Both the Accounting Firm and the Principal can terminate the accounting services agreement upon material breach.

Termination of the accounting services agreement is effected independently of the terms of notice in the agreement.

Breach on the part of the Accounting Firm may for example be deficiently performed work, including delays, or that accounts prepared to a significant degree deviate from the rules that apply to preparation of accounts.

An example of breach on the part of the Principal is non-payment for services performed. Another is that the Accounting Firm is not given the opportunity to do its job in a proper manner, for example by its not receiving the relevant accounting documents, etc.

Moreover, it follows from the Accountants Regulations¹⁵ that if the Principal is materially in breach of his obligations according to the accounting services agreement, so that the Accounting Firm can not produce or provide the basis for the agreed statutory reporting, then an authorized accountant is obliged to resign from the assignment.

0.4 Authorizations

0.4.1 Authorization documentation

When the Accounting Firm is to attend to the Principal's interests which require authorization, written authorization must be provided.

For every job an overview of which authorizations the Accounting Firm holds and whom the authorization covers must be available.

The Accounting Firm must ensure that authorizations are withdrawn upon resignation/retirement from the Firm or when being transferred to others in the Firm.

0.4.2 Signing public statements

An authorized accountant or another employee may, within the limits set in public sector legislation, by authority sign statutory statements for the Principal. The authorization should in that case limit the Accounting Firm's responsibility to the statements being in concurrence with the accounts. The Principal has regardless full responsibility vis-à-vis the relevant authority that the information is correct.

¹⁵ Section 3-1, third subsection.

0.5 Identity check

The person who establishes a job on behalf of the Accounting Firm must ensure that an identity check of the customer is conducted, including making sure that the documentation submitted is sufficient as ID¹⁶.

0.6 Summary of mandatory requirements

Listed below are the requirements which according to this standard shall be regarded as mandatory:

1. The accounting firm shall at all times evaluate the need for internal routines, so that the Principal's interests are safeguarded in a prudent manner. The routines must be established in writing if essential for ensuring implementation, and in that case they must be readily available to all employees and accounting supervision.
2. The accounting firm must be able to justify the prudence of their arrangements for implementation of the job.
3. In connection with the establishment of a new assignment, where the Principal has recently taken delivery of corresponding services from another accounting firm, a statement about the assignment shall normally be requested from that firm. This applies even though the accounting services agreement has not yet been formally terminated. The Principal must be notified that a statement is being obtained.
4. The Accounting Firm must, upon the request of the Principal, give an account of its fee calculation.
5. The Accounting Firm must in general have sufficient capacity to perform jobs in accordance with the accounting services agreement and the requirements made with regard to the quality of job performance.
6. The Accounting Firm must have sufficient competence to carry out the job in accordance with the accounting services agreement.
7. The number of authorized accountants in the Firm shall be sufficient for the implementation of prudent quality control.
8. The Accounting Firm must ensure that all employees in the Firm submit written declarations of confidentiality.
9. The Accounting Firm must ensure that its operations are conducted prudently and safeguard correct fulfilment of duties according to statutes and agreements, as well as that which at any time must be regarded as being generally accepted principles for external accounting.
10. Documentation must be stored in an orderly and reassuring manner.
11. Submitted documentation must be relinquished at the request of the Principal.
12. When operations cease, the Principal's submitted documentation shall be returned as soon as possible.

¹⁶ Cf. Section 5 of the Money Laundering Act of 20 June 2003, No. 41

13. The Accounting Firm must have routines which safeguard and preserve electronic information in the event of unforeseen incidents.
14. All sensitive materials which are not archived must be made unreadable.
15. The Accounting Firm must have legitimate usage rights to all application software and at all times have the correct number of licenses of the software which is used.
16. All work stations and servers must have satisfactory anti-virus protection.
17. The accounting firm shall at all times evaluate their overall insurance needs.
18. A written accounting services agreement must be established with all Principals.
19. The accounting services agreement must indicate which accounting functions, i.e. bookkeeping and reporting tasks, etc., the Accounting Firm has assumed.
20. The accounting services agreement must not in any way give the Principal the impression that the Principal's own responsibility can be reduced through the use of external accountants.
21. In addition to accounting functions, "other jobs" must be stipulated in the accounting services agreement. This applies to any independent assignment which the Accounting Firm commits itself to carry out for payment.
22. The Accounting Firm must on an ongoing basis make sure that the agreements cover changes to the assignments, and that they cover the requirements in the Accountants Act with associated regulations.
23. When the Accounting Firm is to attend to the Principal's interests which require authorization, written authorization must be provided.
24. For every job an overview of which authorizations the Accounting Firm holds and whom the authorization covers must be available.
25. The person who establishes a job on behalf of the Accounting Firm must ensure that an identity check of the customer is conducted, including making sure that the documentation submitted is sufficient as ID.

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