

anual report 2016

activity report

Annual Report of Activities in 2016

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INTRODUCTION

The Accounting and Auditing Institute (ICAC) is an independent body attached to the Ministry of Economy, Industry and Competitiveness, the action of which is governed by the general laws and provisions applicable thereto, in particular the provisions for these types of public bodies contained in Law 40/2015, of 1 October, on the Legal Regime of the Public Sector, as well as what is specifically laid down in Audit Law 22/2015, of 20 July, in the implementing Regulations passed by Royal Decree 1517/2011, and in its By-laws, passed by Royal Decree 302/1989.

1. Functions and responsibilities

Article 1 of Audit Law 22/2015 (LAC) states, "Auditing will be understood to be the activity of reviewing and checking annual accounts, as well as other financial statements or accounting documents, prepared in accordance with the applicable regulatory framework for financial information, as long as the aim of said activity is to issue a report on the reliability of said documents which may have legal effects against third parties."

The fundamental mission of the ICAC is to carry out the Oversight Function. Article 46 of Audit Law 22/2015 establishes that all auditors and audit firms are subject to the objective and independent public supervision system, set out in the Law itself, when carrying out the audit profession as defined in Article 1 of said Law, and all other persons, entities or bodies whose action falls within the scope of application of Regulation (EU) 537/2014, of 16 April.

The same provision states that the ICAC is the authority in charge of the public supervision system and, in particular, of the following functions:

- a) Authorising and registering auditors and audit firms in the Official Register of Auditors. Said registration is a requirement in order to perform auditing in Spain, and the Official Register of Auditors (ROAC) reports to the ICAC.
- b) The adoption of ethical standards and internal quality control standards for the auditing profession, technical auditing standards according to the terms of this Law, and supervision to ensure they are properly complied with.
- c) Ongoing auditor training.
- d) Regular monitoring of the evolution of the auditing services market with regards to public-interest entities.
- e) Disciplinary system.
- f) Inspections and investigation system.

With regards to accounting regulation, the responsibilities of the ICAC are listed in Article 2 of its Bylaws approved by the aforementioned Royal Decree 302/1989:

1. To perform technical work and propose a General Accounting Plan adapted to European Regulations and the Laws regulating these matters, and also to approve the adaptations of this plan to the different sectors of economic activity.
2. To establish developmental criteria for those points of the General Accounting Plan and the sectoral adaptations thereof deemed necessary for the correct application of said standards, which will be published in the Institute's Gazette.
3. To continuously improve and update accounting plans, to which end it will propose any legislative or regulatory modifications deemed necessary to bring them in line with the provisions issued by the European Union or in accordance with accounting advances.
4. To perform and promote any research, studies, documentation, distribution and publications required to develop and improve accounting standards.
5. To work with international bodies to provide technical coordination and cooperation on accounting matters, particularly EU bodies, and domestic bodies such as public law corporations or research associations.

2. Governing Bodies of the ICAC

The governing bodies of the Accounting and Auditing Institute are the Chairman, the Audit Committee and the Accounting Board.

The Chairman, in his capacity as Director General, shall be appointed by the Government, as proposed by the Minister of Economy and Competitiveness, and shall be the legal representative of the ICAC, exercising the powers vested in him by this Law and those determined by regulation.

The Audit Committee, is the body to which the matters relating to the following issues must be submitted for consideration by the Chairman: Setting the standards that the professional competence exams required for access to the Official Register of Auditors (ROAC) must follow, as well as the calls for applications for such, approved and published by Ministerial Order; publication of the audit, ethical and internal quality control regulations that are drawn up, adapted or revised by public law corporations representing those who perform the audit activity or, where applicable, by the ICAC; proposals for legislative or regulatory modifications that are elevated to the Minister of Economy, Industry and Competitiveness with regards to audit activity regulations; regulations for ongoing training; resolution by auditors of matters put forth by the ICAC as a result of performing said activity provided that it is considered that they are of general interest; and any others that the Office of the Chairman considers appropriate, excluding those relating to the powers to impose sanctions.

The Audit Committee shall be presided over by the Chairman of the ICAC and composed of a maximum of thirteen members designated by the Ministry of Economy, Industry and Competitiveness, with representatives from the Directorate General of Insurance and Pension Funds, the Ministry of Finance and Public Administration by means of the Office of the State's Inspector General, the Accounts Court, corporations that represent auditors, the Bank of Spain, the Na-

tional Securities Market Commission, the State Legal Service, those forming part of the judicial or public prosecution service or business registrar, universities, and one renowned expert in the area of accounting and auditing.

The Accounting Board. Once the Accounting Consultancy Committee has been heard, the Accounting Board is the competent body for assessing the suitability and adaptation of any regulatory proposal or interpretation of general interest regarding accounting within the Conceptual Framework of Accounting regulated by the Commercial Code. Accordingly, it shall notify the competent bodies and organisations before approving accounting standards, as well as their interpretations, issuing the corresponding non-binding report.

The Accounting Board shall be chaired by the Chairman of the Institute, who casts the deciding vote, and along with him by a representative from each one of the other centres, bodies and institutions responsible for regulating accounting matters within the financial system: the Bank of Spain, the National Securities Market Commission and the Directorate General of Insurance and Pension Funds. A civil servant from the Accounting and Auditing Institute acts as the Secretary of the Board and attends meetings with the right to be heard but not vote.

Also sitting on the Accounting Board and attending with the right to be heard but not vote is a representative of the Ministry of Finance and Public Administration designated by the department head.

The Accounting Consultancy Committee is the advisory body of the Accounting Board. The Committee shall be composed of reputable accounting experts in the fields of economics and finance who represent both the public administrations and the different sectors involved in the preparation, use and distribution of said information.

3. Administrative Structure

The Institute is structured with the following units with the organisational level of Sub-Directorate General:

- General Secretariat.
- Sub-Directorate General of Accounting Technique and Standardisation.
- Sub-Directorate General of Technical Audit Standards.
- Sub-Directorate General of Technical Control.

Within the scope of the powers conferred upon the body by Law 22/2015, the **General Secretariat** is responsible for: The study, proposal and management of the personnel policies applicable to the employees of the autonomous body; obtaining, organising and safeguarding bibliographical and documentary material from both domestic and international sources in the fields of accounting, finance and auditing; managing material resources, buildings and facilities; internal operations; economic, accounting, budgetary and accounting management functions and functions of an administrative nature in general, as well as organising and maintaining the Official Register of Auditors and publishing the Official Gazette of the Accounting and Auditing Institute.

The Official Register of Auditors has three sections: one referring to natural persons, another to firms and a third to auditors, audit firms and other audit entities of third countries referred to in

Articles 10.3 and 11.5 of Law 22/2015. Regarding the first two sections, an updated list of registered auditors is periodically published, listing their names and registered business addresses as well as the following information for partners that are legal entities:

- Registered address.
- Full names of each one of the partners, indicating who is responsible for administrative and management functions.
- The full names of the auditors who work for the company.

This information shall be completed pursuant to the provisions of Law 22/2015 and in the implementing Regulations approved by Royal Decree 1517/2011.

The **Sub-Directorate General of Accounting Technique and Standardisation** is responsible for the tasks relating to: Preparing and proposing a General Accounting Plan that complies with the directives of the European Union; adapting the Plan to the different sectors of economic activity; analysing and proposing the laws in which the accounting principles are established, as well as promoting and developing the application of such principles and proposing the answers to queries raised in relation to accounting standards; developing, updating and perfecting analytical accounting; drafting reports on the provisions which in one way or another affect company accounting or the content and structure of annual accounts; in general, anything related to updating and perfecting accounting standards.

The **Sub-Directorate General of Technical Audit Standards** is responsible for: Conducting audit studies; coordinating and promoting the selection, training and improvement of auditors performed professional associations representing auditors and accounting experts or, in a supplementary manner, by the Institute itself; submitting to the Chairman of the Accounting and Auditing Institute the procedures that the Directorate is responsible for regarding the standardisation of theoretical training courses that should be followed to be able to exercise the audit activity (by means of its registration in the ROAC) and those who comply with the requirements for the purposes of exemption from the professional exam for the aforementioned access, in addition to the recognition of the centres that are authorised to impart ongoing training activities and the validation of those courses offered by certain institutions; analysing the technical, ethical and internal assurance regulations for audits of the auditors prepared by professional associations representing, so that they are in accordance with the general principles and practices commonly admitted in the Member States of the European Union, therefore proposing to the Chairman that they be published in the Institute's Official Gazette, in addition to requiring that these professional associations draw up, adapt or revise their technical audit standards; the preparation, adaptation or revision of these standards when the aforementioned professional associations do not comply with the requirement; hearing, by the personnel in the Directorate, of the disciplinary proceedings for breaches regarding audits referred to in Title III of Law 22/2015 of 20 July, on Auditing and disciplinary proceedings due to a breach of the obligation to file the annual accounts in the Commercial Registry, referred to in Chapter VI of Royal Legislative Decree 1/2010 of 2 July, which approved the consolidated text of the Law on Capital Companies, in addition to submitting to the Chairman of the Institute the proposal to resolve the proceedings and other acts for which the Directorate is responsible; and the issuing and drawing up of regulatory proposals on auditing, in addition to studying and answering queries raised in relation to this matter.

The **Deputy Directorate of Technical Control** is responsible for: Exercising the powers that the Audit Law gives the Accounting and Auditing Institute regarding investigations and inspections,

specifically for: Proposing the audit work that must be reviewed ex officio by the Institute and the implementation of inspections of the audit firms; perform the review work considered necessary for the investigation of audit work or other aspects of audit activity, as well as the inspection of audit firms; the preparation of technical control reports (investigations) with special reference, if appropriate, to the circumstances that involve a breach of the Audit Law or the audit technical standards, as well as the issuing of inspection reports on the audit firms, with the improvement measures considered necessary.

The ICAC may agree upon the implementation of inspections with the Corporations that represent the auditors or with third parties. In both cases, ICAC employees are responsible for supervising and managing the quality control work. As of the effective date of Regulation (EU) 537/2014, of 16 April, on specific requirements regarding the statutory audit of public-interest entities, the Corporations representing the auditors cannot participate in performing the inspections of audit firms who audit public-interest entities.

The aforementioned administrative structure is responsible for the following matters:

- Accounting standards.
- Audit standards.
- Audit regulations.
- Control of audit activity (inspections and investigations).
- Disciplinary Activities. Managing resources and the Official Register of Public Auditors (ROAC).

The activities developed by the different ICAC sub-directorates in 2016 are reported in the following sections.

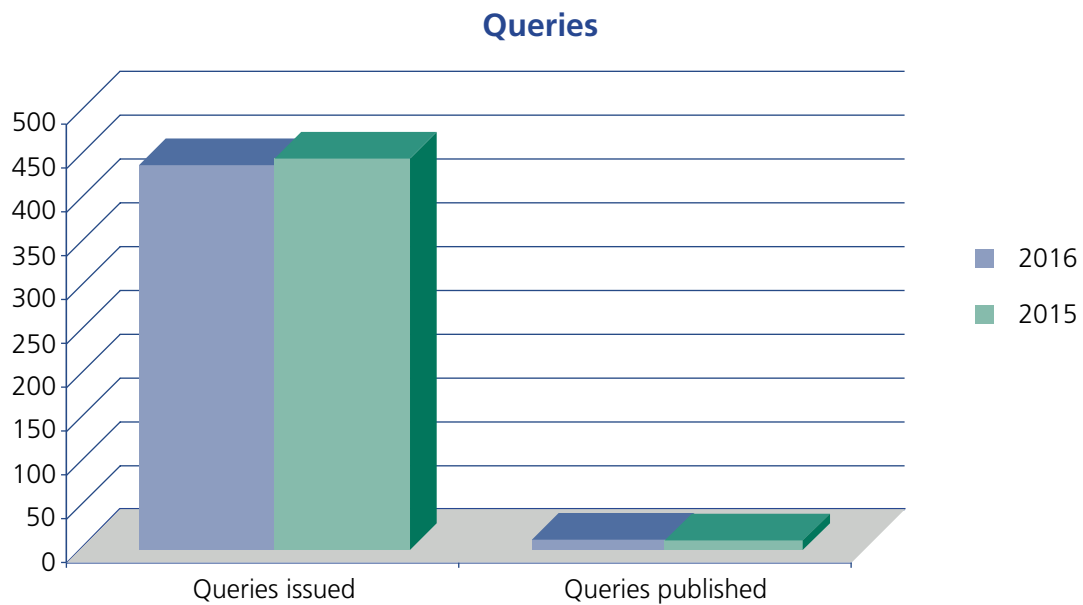
ACCOUNTING

The activities performed by the Sub-Directorate General of Accounting Technique and Standardisation in 2016 were as follows:

- a) Drafting of Royal Decree 602/2016, of 2 December, amending the General Accounting Plan approved by Royal Decree 1514/2007, of 16 November; the General Accounting Plan for Small and Medium Sized Enterprises approved by Royal Decree 1515/2007, of 16 November; the Standards for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010, of 17 September; and the Rules of Adaptation of the General Accounting Plan for non-profit entities approved by Royal Decree 1491/2011, of 24 October.
- b) Preparation of the Resolution, of 9 February 2016, of the Accounting and Auditing Institute, implementing the rules of registration, assessment and preparation of the financial statements for profit tax accounting.
- c) Drafting of the Resolution, of 29 January 2016, of the Accounting and Auditing Institute on the information to be included in the annual accounts report in relation to the average payment period to suppliers for commercial transactions.

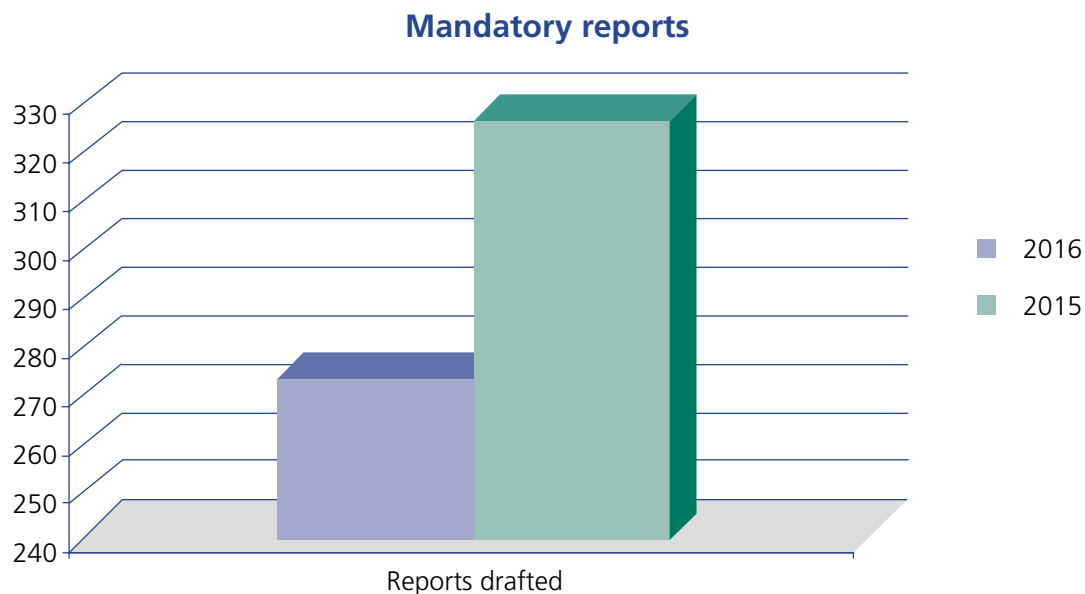
- d) Drafting of Draft Law amending the Code of Commerce, the consolidated text of the Capital Companies Act and the Audit Law, with regards to non-financial information and diversity.
- e) Responding to queries received on the accounting treatment of specific situations. Among all the queries that are resolved, those that are considered of general interest are selected for quarterly publication in this Institute’s Official Gazette.

QUERIES	2016	2015
Queries issued	446	455
Queries published	14	13



- f) Drafting reports on the standards drafted by other bodies of the public administration or other public institutions. Specifically, the following reports were drafted:

MANDATORY REPORTS	2016	2015
Reports drafted	273	326



- g)** Revision of the translations of various International Financial Reporting Standards (IFRS) issued by IASB and adopted by the European Union through the Accounting Regulatory Committee for publication in the Official Journal of the European Union. This task was performed by the Translation Committee set up for this purpose.
- h)** Technical coordination and cooperation with international organisations by participating in accounting work groups, specifically:
- Attending and participating in meetings of the Accounting Regulatory Committee (ARC), chaired by the European Commission.
 - Attending and participating in quarterly meetings of the EFRAG-CFSS with European accounting regulators, chaired by the EFRAG.
 - Attendance and participation at meetings of the work group organised by the Commission (workshop) for the transposition of Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, which amended Directive 2013/34/EU in relation to the disclosure of non-financial information and information on diversity for certain large companies and certain groups.
 - Participation in the meetings of the accounting experts work group (ISAR) set up by UNCTAD (UN).
 - Attendance at the national accounting regulator meetings (NSS), held in Toronto and London organised by IFASS.
 - Attendance and participation at the global annual meeting (WSS) held by the IASB in London for accounting regulators.
 - Collaboration with the IASB and EFRAG through reports and letters of comments on proposed accounting standards and interpretations of the IASB and on EFRAG's comments thereto.
- i)** Collaboration with the Bank of Spain Balance Sheet Centres on the review and, as appropriate, modification of forms for filing individual and consolidated annual accounts in the Mercantile Registries.
- j)** Collaboration and attendance at accounting meetings on the Higher Sports Board of the Mixed Commission for transformation of clubs into sports corporations.

- k) Collaboration with XBRL España by appointing a member of the Sub-Directorate to chair the PGC-2007 and PGCPYMES-2007 Taxonomy Subgroup, in addition to attending meetings on this topic.
- l) Collaboration with XBRL España by appointing a member of the Sub-Directorate to chair the Regulations Taxonomy Subgroup to prepare consolidated annual accounts, in addition to attending meetings on this matter.
- m) Collaboration with the Office of the State's Inspector General in relation to the response to queries made on the accounting treatment of specific situations.
- n) Collaboration with the Directorate General of Taxation in relation to the response to queries made on the accounting treatment of specific situations.
- o) Collaboration with the OECD in preparing questionnaires on the regulation and fair competition of the various sectors of activity through POLECO, which acted as coordinator.
- p) Update and subsequent review of the text for dissemination and publication of the International Financial Reporting Regulations adopted by the European Union.
- q) Within the sphere of performing and promoting research, study, documentation, dissemination and publishing activities for the development and perfecting of accounting regulations.

While performing the attributed responsibilities, and in accordance with the applicable regulations, the following meetings of the cited collegiate bodies were held:

- a) Three meetings of the Accounting Advisory Committee were held in 2016 (three meetings in 2015).
- b) Three meetings of the Accounting Board were held in 2016 (three meetings in 2015).

AUDIT REGULATIONS

Specific actions performed in 2016 by the Sub-Directorate General of Technical Audit Standards were the following:

- a) Development of regulatory projects.
In 2016, the works relating to the regulation of the abbreviated processing of the disciplinary proceedings were carried out in accordance with the authorisation provided in Article 69.5 of Law 22/2015, of 20 July, on Auditing. This processing was envisaged for those cases where all facts which, without entailing any complexity whatsoever, allow us to see the infringing conduct are held or known upon the start date of the proceedings. These abbreviated proceedings involve a new feature implemented by the First Final Provision of Royal Decree 602/2016, of 2 December, which incorporates new Article 95 bis of the implementing Regulation of the consolidated text of the Law on Auditing, approved by Royal Decree 1517/2011, of 31 October.

In December 2016, the Resolution of the Accounting and Auditing Institute was approved, which published the amendment of certain Technical Audit Standards and the Glossary of Terms. The IAASB, the body that issues the IFAC International Standards on Auditing, published standards relating to the process of issuing and content of the audit report and communicating with the governing bodies of the audited entity. By means of the aforementioned Resolution, the following ISA were adapted to Spanish legislation in order to be applied: 260 (Communication with Those Charged with Governance), 570 (Going Concern), 700 (Forming an Opinion and Reporting on Financial Statements), 705 (Modifications to the Opinion in the Independent Auditor's Report), 706 (Emphasis of Matter Paragraphs and Other Matter Paragraphs) and 720 (The Auditor's Responsibilities Relating to Other Information). In addition, a new ISA 701 (Communicating Key Audit Matters in the Independent Auditor's Report) is included and ISA-ES 510 and 805 are modified. This adaptation has taken place to adapt the content of said standards issued by the IAASB to the new report model set out in Law 22/2015, of 20 July, on Auditing ordered as a consequence of the modifications set out in Directive 2006/43/EC, regarding the statutory audits of annual and consolidated accounts, by Directive 2014/56/EU, of the European Parliament and Council, of 16 April 2014, and also a consequence of the approval of Regulation (EU) no. 537/2014, of the European Parliament and of the Council, of 16 April 2014, on specific requirements regarding statutory audit of public-interest entities.

2016 marked the beginning of the relevant studies and work for the necessary modification of the implementing Regulation of the consolidated text of the Audit Law in order to be adapted to new Law 22/2015, of 20 July, on Auditing.

- b) Drafting of reports on provisions that might or could affect the scope of the audit activity. In the 2016 financial year, the number of reports on regulatory proposals or projects amounted to 36.
- c) Study and preparation of the reply to queries submitted on the interpretation and application of audit regulations. Among all the queries that are resolved, those that are considered of general interest are selected for quarterly publication in this Institute's Official Gazette.

QUERIES	2016	2015
Queries issued	314	208
Queries published	5	4

- d) Revision of the translations of several International Standards on Auditing issued by the IAASB for the purpose of their subsequent adaptation by means of a Resolution of the ICAC, a task that is carried out by the Translation Committee created for this purpose, by Resolution of the ICAC of 10 April 2013.

Similarly, the draft projects published by the IAASB and IESBA were debated and submitted to consultation, in order to issue the corresponding report to be sent, either individually by the ICAC or jointly with other competent authorities of other Member States of the European Union (EAIG, subgroup of the EGAOB) or countries participating in international forums (IFIAR).

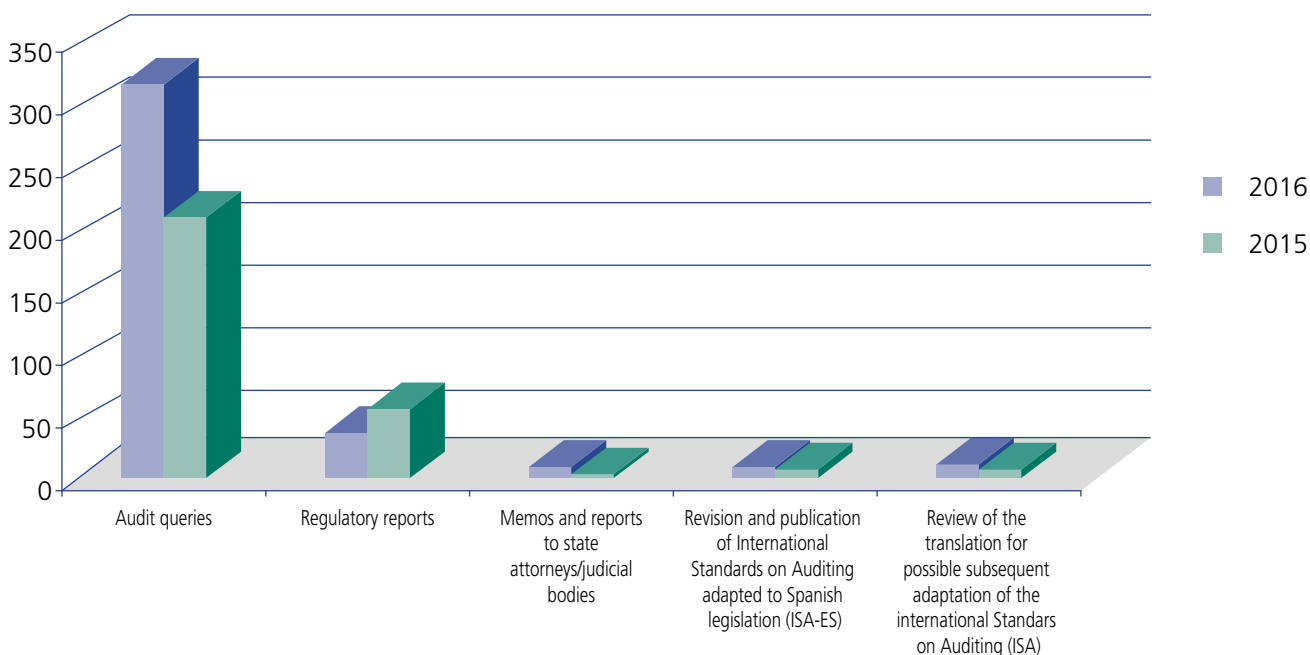
- e) Collaboration with the Director General of Registries and Notaries regarding the treatment of specific situations.

While exercising the powers conferred, seven meetings of the Audit committee were held in 2016 (eight meetings in 2015), which addressed the matters required by the applicable regulations.

The specific activities carried out in financial year 2016 can be summarised as follows:

REGULATION ACTIONS REGARDING AUDITS	2016	2015
Audit queries	314	208
Regulatory reports	36	55
Memos and reports to state attorneys/judicial bodies	9	3
Revision and publication of International Standards on Auditing adapted to Spanish legislation (ISA-ES)	9	0
Review of the translation for possible subsequent adaptation of the ISA	11	7

Regulation actions regarding audits



OVERSIGHT OF THE AUDIT ACTIVITY: INSPECTIONS AND INVESTIGATIONS

Introduction

Article 46 of the Audit Law (hereinafter known by its Spanish initials, LAC) attributes the responsibility of the public oversight system to the ICAC, therefore assigning to the ICAC, among other

functions, the system of inspections and investigations, along with the responsibility and participation in the international cooperation mechanisms in the field of audit activity.

In accordance with the provisions set forth in Article 52 of the LAC, oversight of the audit activity encompasses investigation and inspection actions regarding auditors and audit firms (hereinafter, auditors) carried out by the Sub-directorate General of Technical Control of the ICAC.

During 2016, the Sub-directorate General of Technical Control had 19 civil servants, including the Sub-director General and the secretary of this Sub-directorate, tasked with both investigations and inspections of auditors.

Investigations are performed on certain audits or aspects of audit activity in order to determine facts or circumstances that could involve indications of possible breaches of the audit regulations.

Inspections consist of regularly inspecting auditors in order to evaluate their internal systems of quality control and review a selection of audit work so as to evaluate the effectiveness of these systems regarding compliance with the audit activity regulations and, where deficiencies are found, so as to implement improvement requirements for these systems in order to improve the quality of audits.

Audit control activities carried out in financial year 2016

The auditors that submitted a statement regarding, inter alia, the audit work performed during the period from 01/10/2014 to 30/09/2015 amounted to 2,314 auditors and audit firms (1,226 companies and 1,088 individual auditors). These declarations were taken into account for preparing the control plan corresponding to 2016, published in Official Journal of the Accounting and Auditing Institute (BOICAC) No. 106 of June 2016.

Audit control activities were directly performed by the ICAC itself.

Regarding the inspection activity, and under the management and supervision of ICAC, third parties have assisted who were contracted with specific expertise in the areas of credit institutions and information technology systems.

In 2016, control actions focused on quality control inspections (including actions on annual transparency reports) and on investigations (including specific actions on certain audit aspects), amounting to a total of 329 actions, with the following details:

Actions conducted directly by the ICAC	2016
Inspections	196
Investigations	133
TOTAL	329

a) Inspection Actions

In connection with the extensive inspections by large-scale auditors who audit PIEs, one inspection was completed which began the year before and was conducted in conjunction with the PCAOB¹. This inspection included reviewing 3 PIE audit engagements (two engagements from an entity with securities admitted for trading on organised markets and one engagement from a credit institution) and one engagement from a non-public interest entity (NPIE), as well as reviewing the firm's policies and procedures.

The scope consisted of the inspection of the internal control procedures corresponding to the six parts of the quality control system of the two aforementioned audit forms, and also of the inspection of the working papers of certain areas relating to the aforementioned audit engagements.

In 2016, another extensive inspection was underway and another one commenced with this scope, both with large-scale auditors who audit PIEs.

Furthermore, in 2016, 100 actions were completed which had a limited scope, on the one hand, consisting of checking the obligation to publish the annual transparency report on the web page of the auditors, and on the other, checking that the general structure of said report complied with the provisions set forth in Article 26 of the consolidated text of the Audit Law approved by Legislative Royal Decree 1/2011, of 1 July (TRLAC)². 26 of these actions referred to auditors inspected with such scope for the first time and 74 to follow-up actions regarding improvement requirements implemented in 2014 and 2015 by the President of the ICAC in the framework of actions completed with the aforementioned limited scope in the years in question.

Furthermore, in the framework of inspections, the Sub-Directorate General of Technical Control took part in the Colleges of Competent Authorities established for each of the four biggest European networks of audit firms, counting the resources allocated as 20 actions in total.

In compliance with the provisions of Article 61 of the Audit Law, the most important aspects of the **inspection findings are summarised below:**

a.1) Extensive inspection completed in 2016

With regards to the firm's policies and procedures, it is considered that there is a deficiency when the policies, procedures, tools and internal controls established by the audit firm are not appropriately implemented to reasonably ensure compliance of the applicable required measures contained in the audit regulations.

With regards to the audit engagements, it is considered that there is a deficiency when an important audit procedure is not carried out, or not carried out in a sufficient and adequate manner, regarding balances, types of material transactions or information in the report, and thus the conclusion shall be drawn that sufficient and adequate evidence has not been obtained to uphold the audit opinion in relation to a relevant statement in the audited financial statements; and also

¹ Public Company Accounting Oversight Board (PCAOB), the audit supervisor of the United States, in accordance with the Sarbanes-Oxley Act of 2002.

² Regulations that were in effect in the years the inspection referred to.

when there is non-fulfilment of the independence requirements, the threats to independence deriving from certain services, events or circumstances, or their significance or the necessary safeguards, are not sufficiently or adequately assessed.

Matters regarding the firm's policies and procedures, as well as regarding the inspection of audit engagement files where deficiencies were highlighted, can be summarised as follows:

These deficiencies were, in some cases, brought to light only in a part of the samples selected for inspection and, in others, they could be clearly seen in the whole sample.

From the comparison of the inspection findings completed in 2016 with the inspections completed in previous years, in relation to the **firm's quality control policies and procedures**, a slight reduction in the deficiencies detected in previous years was seen in relation to the areas of quality leadership and the process of acceptance and continuance of clients and audit engagements, although, nevertheless, significant deficiencies linger in essential parts of the quality control system such as independence, human resources, engagement quality control review and monitoring of the quality control system.

In addition, from the check carried out on the **audit method applied to audit engagements**, significant deficiencies have come to light when conducting substantive tests on the net turnover from transactions with group companies and in relation to analytical substantive tests on the net turnover from transactions with third parties, as well as on the accounting estimates relating to hedging specific to credit risk. Furthermore, significant deficiencies have also come to light related to conducting control tests and audit sampling.

These deficiencies identified are similar to those included in the report on 2016 by the "International Forum of Independent Audit Regulators" (IFIAR) relating to the inspection deficiency survey conducted by its members.

a.1.1) Review of the implementation of the firm's policies and procedures

Leadership responsibilities for quality

- Differentiation of the responsibilities of implementing the firm's system of quality control with regards to those relating to monitoring, such that it is ensured that those in charge of monitoring, along with those that carry it out, show adequate and sufficient objectivity to perform said function in the firm with appropriate segregation of functions regarding the remaining parts of the activity control system.

Ethics and independence

- Adaptation of the global policies, the management and control processes, and also the methodology to be applied in the assignments, relating to independence, based on the IESBA code issued by IFAC, the ethics and independence requirements applicable in Spain, with regards to dealing with close family members, the network, entities linked to the one being audited, holding financial investments, fees and dealing with non-audit services.

- Approval processes for non-audit services to ensure, on the one hand, that all necessary documentation is reviewed by the appropriate staff from the audit firm in order to suitably assess the nature of the service and, where appropriate, the significance of the threats to independence or the incompatibility and, on the other hand, the approval by said audit firm.
- Adaptation of requests for confirmations of independence to be made to auditors of the components of company groups audited by the audit firms, including components located outside Spain, with regards to knowledge and compliance of the independence requirements applicable to the audits of the company group.
- Clear definition of the process to be followed and the forms of annual confirmation of independence applicable to staff, along with communication of the findings relating to said process for the purposes of being considered in the assessment of performance of the staff who take part in the audit engagements.
- Documentation relating to the assessment of independence in each audit engagement adapted in order to ensure that the assessment of the non-audit services, their effects and significance, including their representativeness, are appropriately documented.

Acceptance and continuance of clients and engagements

Professional risk

- Prior to accepting the audit engagements, processes that ensure that there is a suitable flow of information between the process of assigning staff to the engagements and the acceptance process, for the purpose of evaluating the available time and capacity of the audit teams.
- Policies and procedures to determine **that the fees of the audit engagements cover the necessary costs for conducting said engagements, such that they ensure the engagements will be conducted with the quality required** by the audit activity regulations.

Independence risk

- Documentation of the assessment of compliance with the ethics requirements, including those regarding independence, along with their findings before completing the acceptance and continuance of engagements processes.

Engagement risk

- Weighting of the different factors analysed in the acceptance or continuance of engagements and clients that justifies the risk assigned to the audit engagement.

Continuance of engagements

- Controls that ensure the assessments carried out in previous years are sufficiently and adequately checked in light of the existing circumstances at the time of performing the continuance of engagements process.

Acceptance of clients and engagements

- Documentation on grouping entities into one group and on their corresponding audit engagements, bearing in mind the appropriate criteria to be able to conclude that the risks of the different grouped entities and engagements, for the purposes of the acceptance process, include the same audit risk and also enable the grouped entities and engagements to be identified for the purposes of said process.

Human resources

Assigning staff to the audit engagement teams and for quality control reviews

- Scales and indicators to determine the work load to be assigned, in terms of hours, for the different activities to be carried out by the partners, directors and managers, bearing in mind the risk of the audit engagements they are taking part in.
- Control processes and procedures that ensure the traceability and reliability of the calculation of the hours used by each partner of the audit teams and by the engagement quality control reviewers when carrying out each audit engagement of each entity audited, for the purposes of suitably monitoring their workload in order for the audit firm to ensure that it has enough time available to fulfil the tasks assigned regarding performing, reviewing and supervising the engagement and also for its engagement quality control review.
- Differentiation of the requirements for authorised auditors to sign audit reports with regards to those required by directors who are not authorised for such signing.

Staff evaluation and remuneration

- Process to obtain the information required to measure the quality factors when performing the audit engagements.
- Objectives and factors, as well as their weighting to determine the final performance evaluation when carrying out audit engagements.
- Identifying the influence of the evaluation of quality factors, when carrying out audit engagements, on the final performance evaluation.
- Setting the variable remuneration for partners and directors who are authorised to sign audit reports, and also the review of the fixed remuneration for the rest of the staff.
- Influence of the evaluation on performance, remuneration, such that the quality of performance in audit engagements takes priority over other aspects.
- Promotion to partner or director authorised to sign audit reports linked to quality of performance in audit engagements.

Staff training

- Controls on the type and hours of training carried out by the people participating in the audit engagements, including specialists, thus ensuring that the requirements are met regarding their calculation, proper recording and appropriate reporting to the ICAC.

Engagement performance

On and offshoring of audit activity

- Identifying staff in the on and offshoring centres who participate in the audit engagements, whereby said staff are subject to the requirements of independence. Identifying the parts of the audit engagements they carried out and submitting these parts to the review and supervision policies and procedures.

Engagement Quality Control Review

- Identifying the working papers and the specific significant judgments formulated by the engagement team, which were subject to review; documentation regarding the assessment performed, when it was performed and the grounds for the conclusions reached in the review; effectiveness of the review.

Monitoring

- Including the audit engagements in the scope of the engagement review of each main auditor in charge.
- Individualised review of the audit engagements included in the scope of the monitoring.
- Identifying the working papers and the specific significant judgments formulated by the engagement team, which were subject to review; documentation regarding the assessment performed and the grounds for the conclusions reached in the review; effectiveness of the review.
- Evidence of the annual communication to the responsible of the firm's system quality regarding the monitoring results, for the purposes of making decisions on the modifications to the firm's system quality which, in turn, may be required.

a.1.2) Review of the procedures documented in the audit engagements files

Engagement team

- Identifying the people who have participated in performing the audit engagements in the audit firm's systems and working papers.

Independence

- Documentation suitably showing that the independence requirements are met.
- Procedures to confirm independence that affect all staff who participate in the audit engagements.

Engagement Quality Control Review

- Performing the engagement quality control review at appropriate times in the audit engagements and always before the date of the audit report.

- Adequate and sufficient review of the areas with the greatest risk of material misstatement and which involve a greater degree of judgment; effectiveness of the review.

Monitoring

- Adequate and sufficient review of the areas with the greatest risk of material misstatement and which involve a greater degree of judgment; effectiveness of the review.

Materiality

- Justifying the criteria considered to determine the tolerable misstatement figures and the clearly trivial misstatements.
- Assessing the effect of the accumulated misstatements identified above the materiality threshold for the financial statements as a whole on the audit engagement.

Identifying and assessing risks of material misstatement

- Documenting the criteria, along with the conclusions reached, for the purposes of identifying and assessing the risks of material misstatement.
- Specific aspects considered to rule out or allocate the existence of a fraud risk for the different statements that affect the revenue area, as well as the specific audit procedures planned to respond to the reasons why the fraud risk was indicated.

Verification of the journal entry

- Documenting the selected audit tests carried out on the manual entries in the journal.

Use of internal audit work for the purposes of the tests concerning design, implementation and internal tests of controls

- Audit team assesses the adequacy and sufficiency of the type, time when performed and extent of the tests carried out by the internal audit function of the audited entity.

Tests of controls

- Justifying the audit team's selection of relevant controls relating to each statement of the different financial information items, bearing in mind the entity's transaction or operation flow, as well as the entity's internal controls associated with the beginning, processing and recording of these transactions or processes; justifying the internal controls that, in accordance with the audit strategy defined by the audit team, are subject to the tests of control.
- Performing tests of controls for the year audited, provided that the audit team expects to trust the internal controls for risks of material misstatement assessed as significant.

Analytical procedures

- Assessing the reliability of the data used, determining the auditor's expectations and setting the threshold for investigating the differences between the auditor's expectations and what is recorded by the entity.

Transactions with related parties

- Performing substantive tests.
- Assessing the reasonability of the data, methods and hypotheses of the experts hired by the management in relation to transfer prices.

Sampling

- Justifying the representativeness of the samples considering the objectives of the audit procedures, the characteristics of the population and the adequacy of the tolerable misstatement threshold used.
- Investigating the deviations resulting from applying the audit procedures to the samples, as well as extrapolating the misstatements detected in the samples to the whole population.

Procedures regarding third party confirmation requests

- Investigating the deviations between the confirmed balances and the recorded balances.
- Performing alternative procedures in the event that there is no response to the confirmation requests.

Compliance of the regulations applicable to a credit institution

- Verifying whether there are appraisals and, if there are, verifying the appropriateness of the amounts considered by the entity, for the purposes of assessing the sufficiency of the specific coverage of the credit for clients.
- Assessing the sufficiency of the own resources communicated in the financial statements' disclosures, according to the risk exposure, in line with what is required by the regulations applicable to credit institutions.
- Assessing the effect on the audit engagement of the lack of information in the entity financial statements' disclosures regarding the average price of an acquisition transaction by the entity for shares belonging to one of its shareholders.

a.2) Inspections with a partial scope completed in 2016, limited to the annual transparency report

Actions performed on auditors inspected for the first time with limited scope regarding the transparency report:

As a result of the inspection actions, 17 of the 26 auditors subject to these actions carried out audit engagements for public-interest entities in the period under inspection.

The breakdown of deficiencies highlighted as a result of the inspection is as follows:

FINDING	No. of Reports
Transparency report for 2015 not published	3
The transparency report has not been available on the website for two years	4
No information is provided on whether fulfilling the quality objectives affects the partners' remuneration and, if so, to what extent	10
Information on the activities and ongoing training courses carried out in the last year	6
There is no information on the date of the last quality control performed by the ICAC	2
There is no statement from the board of directors regarding the effectiveness of the functioning of internal quality control	2
Nothing is stated regarding who is ultimately responsible for the quality control system of the audit firm	1
Transparency report not signed	2
The percentage of the corporate capital held by each shareholder is indicated but not the voting rights that these shares give them	1
The circumstances, agreements and statutory clauses regulating the relationships linking them to the companies in the network are not described	1
The Directors are not identified	1
The year of the audited annual accounts is not identified from the public-interest entities audited	1
Transparency report not dated	1

Follow-up actions regarding improvement requirements from inspected auditors, with limited scope with regards to the transparency report in 2014 and 2015:

As a result of these follow-up actions carried out on 74 auditors, the following can be seen:

ITEM	No. of Auditors
Auditors who, in the year under inspection, did not perform audit engagements on PIEs and, thus, there was no obligation to issue the transparency report	1
Auditors who implemented the improvement requirements	51
Auditors who did not fulfil the improvement requirements or show any new deficiencies	22
Total auditors subject to follow-up actions	74

With regards to the 22 auditors who did not fulfil the improvement requirements or show any new deficiencies, the deficiencies were brought to light with regards to the following aspects:

FINDING	No. of Reports
Transparency report for 2015 not published	6
The transparency report has not been available on the website for two years	3
The transparency report is not available or accessible on the website	5
Appropriate information is not provided on the partners' remuneration	3
Appropriate information is not provided on the activities and ongoing training courses carried out in the last year	2
No information is provided on the date of the last quality control performed by the ICAC	2
The head of the organisational structure, tasked with implementing the internal quality control system, the methodology applied and its scope, is not identified	2
No information is provided on the PIE assignments carried out	1

b) Investigation actions

In 2016, 133 investigation actions were performed on audit engagements, 3% more than planned, directly carried out by the ICAC. Out of this number of actions, 60 (45%) arose due to complaints and 73 were mainly caused by the ICAC's plan to review the declaration of the auditor network and the fulfilment of the obligation to rotate auditors.

Out of the complaints received, mainly relating to the audit engagements of entities other than PIEs, once analysed, 77% of the complaints were filed due to a lack of potential indications of breaches of the audit regulations involving a non-time-barred infringement. In addition, in cases where, after analysing the complaints, potential indications of breaches were indeed found, the auditors were required to provide documentation and information: in 78% of these cases, indications of breaches of the audit regulations could be seen, mainly in relation to the breach of audit standards that could have a significant effect on the result of the audit engagement and, therefore, on the audit report.

From all of this, it can be inferred that in 18% of the aforementioned complaints received, there were indications of breaches of the audit regulations involving a non-time barred infringement.

As a result of the actions carried out, whether due to the complaints received or ex officio or upon request of the court, 2016 marked the completion of the examination of 19 audit engagements for entities, one of them a PIE, whereby indications of infringement could be seen in 15 of these engagements.

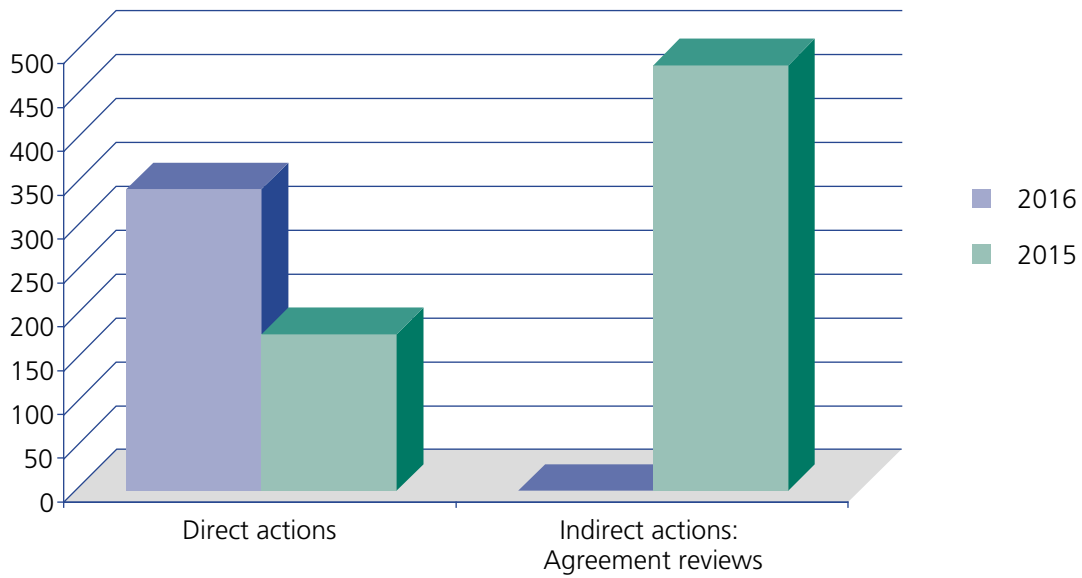
In addition, 40 review actions on the fulfilment of the auditors' obligation to declare the identification of their network to the ICAC were carried out. Indications of a possible infringement could be seen in 16 of these actions.

Furthermore, in 2016, 24 review actions, which began in 2015, were completed on the obligation of the engagement partner to rotate, where no indications of infringement could be seen due to the retroactive consideration of the modifications implemented by Spanish Audit Law (LAC) and Royal Decree 877/2015.

The following table includes the evolution of actions by the Sub-Directorate General of Technical Control in 2016 in comparison with 2015:

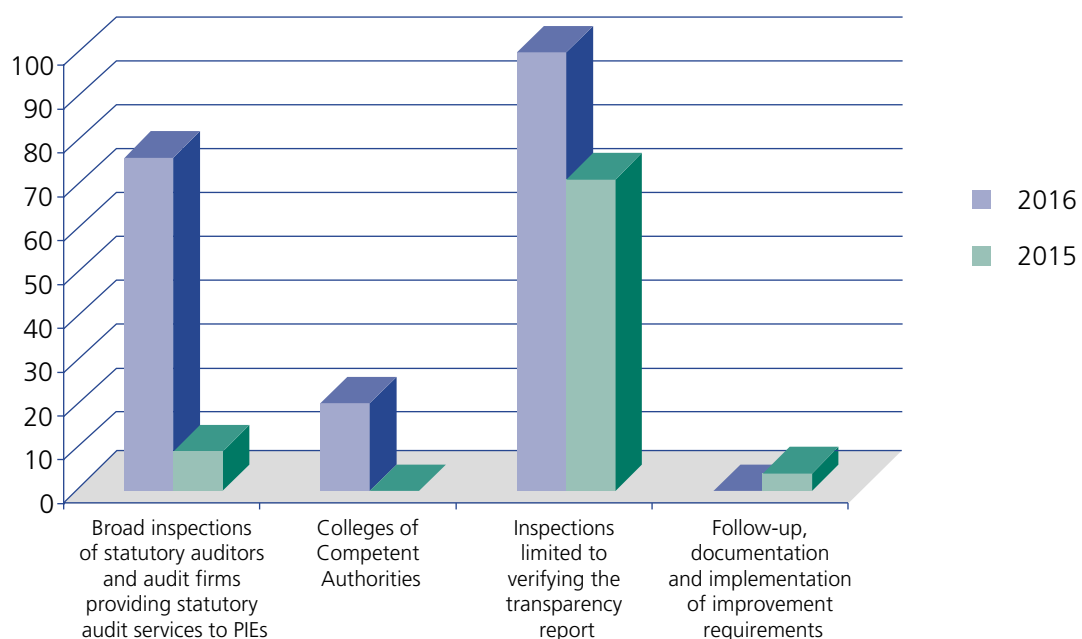
OVERSIGHT ACTIONS	2016	2015
Direct actions	329	171
Indirect actions: Agreement reviews	—	464
TOTAL	329	635

Oversight actions



DIRECT INSPECTION ACTIONS	2016	2015
Broad inspections of statutory auditors and audit firms providing statutory audit services to PIEs	76	9
Colleges of Competent Authorities	20	0
Inspections limited to verifying the transparency report	100	71
Follow-up, documentation and implementation of improvement requirements	—	4
TOTAL	196	84

Direct inspection actions



Bearing in mind, on the one hand, the limitation of the resources assigned to the Sub-directorate General of Technical Control, as well as the provisions of Art. 26.5 of Regulation (EU) No. 537/2014, of 16 April 2014, of the European Parliament and of the Council, on specific requirements regarding the statutory audit of public-interest entities and which repealed Decision 2005/909/EC of the Commission (REU), which states that experts who participate in PIE inspections cannot be contracted by professional associations or professional bodies, as well as the high risk for public interest, in 2016 the supervision work on audit activity focused on PIE auditors, and therefore more direct actions were carried out and no cooperation agreements were entered into with corporations that represent auditors.

Considering the data above, with regards to direct actions, the increase is due to the greater effort in dedicating the resources required by inspections in comparison with investigations. Furthermore, in 2016, resources were allocated to perform an additional inspection of a large-scale audit firm, regarding which the interim inspection report was issued that year.

In addition, in 2016, the actions relating to inspections with a partial scope limited to checking the transparency reports of auditors who audit PIEs increased by 33%, and investigation actions by 58%, with the main reason for the latter being the checks on the declaration of the auditor network to the ICAC.

In addition, there has been an increase in the work carried out at the Colleges of Competent Authorities as a result of the increased cooperation between audit supervisors in the framework of EU regulations, which has led to the calculation of actions in this regard.

The staff assigned to the Sub-Directorate General of Technical Control intervened with regards to performing both inspections and investigations, with an estimation of 13 expert civil servants, in terms of actual hours, working on inspections. Furthermore, in accordance with the consolidated text of the Audit Law (TRLAC) and the Audit Law (LAC), in 2016 said Sub-Directorate had three specialists in important areas for financial information, for assistance in the inspections carried out, under the management and supervision of civil servants.

DISCIPLINARY ACTIVITIES

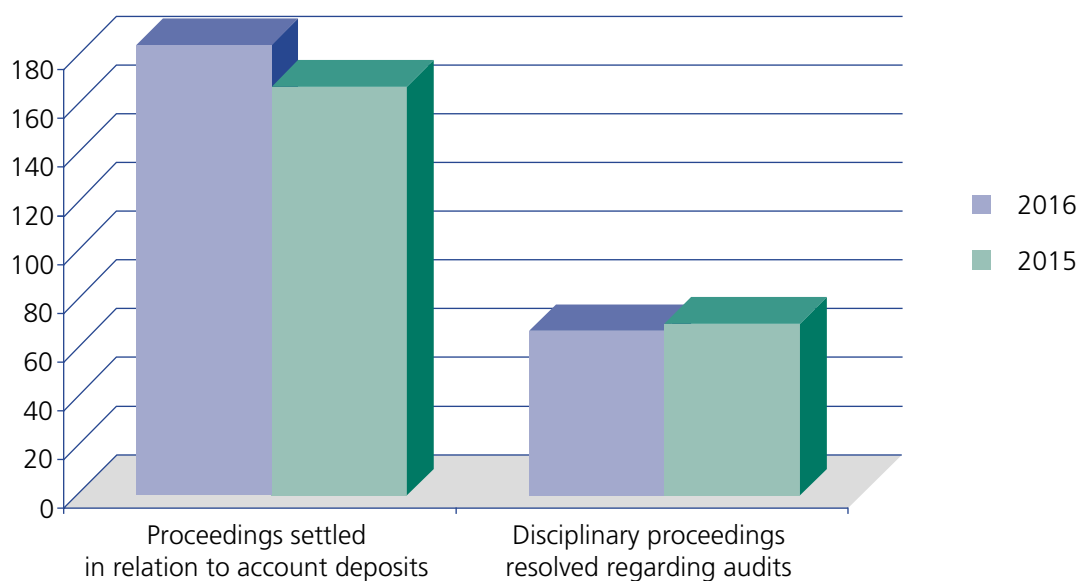
The following specific actions were performed in 2016 by the Sub-Directorate General of Technical Audit Standards:

- a) Disciplinary administrative proceedings due to audit breaches.
The resolution of these proceedings is issued once submitted to the Audit Committee of the ICAC, with 7 meetings having been held during 2016.
- b) Disciplinary administrative proceedings due to breaches of the obligation to present annual accounts for filing at the Commercial Registry were processed, including the participation of 3 people from this Sub-directorate, who assisted the Office of the Chairman in preparing the decisions that said Office was responsible for issuing in those cases.

The number of resolved disciplinary proceedings regarding audits and the filing of accounts increased to 61 and 179, respectively, according to the following details:

DISCIPLINARY ACTIONS	2016	2015
Proceedings settled in relation to account deposits	179	161
Disciplinary proceedings resolved regarding audits	61	65

Disciplinary actions

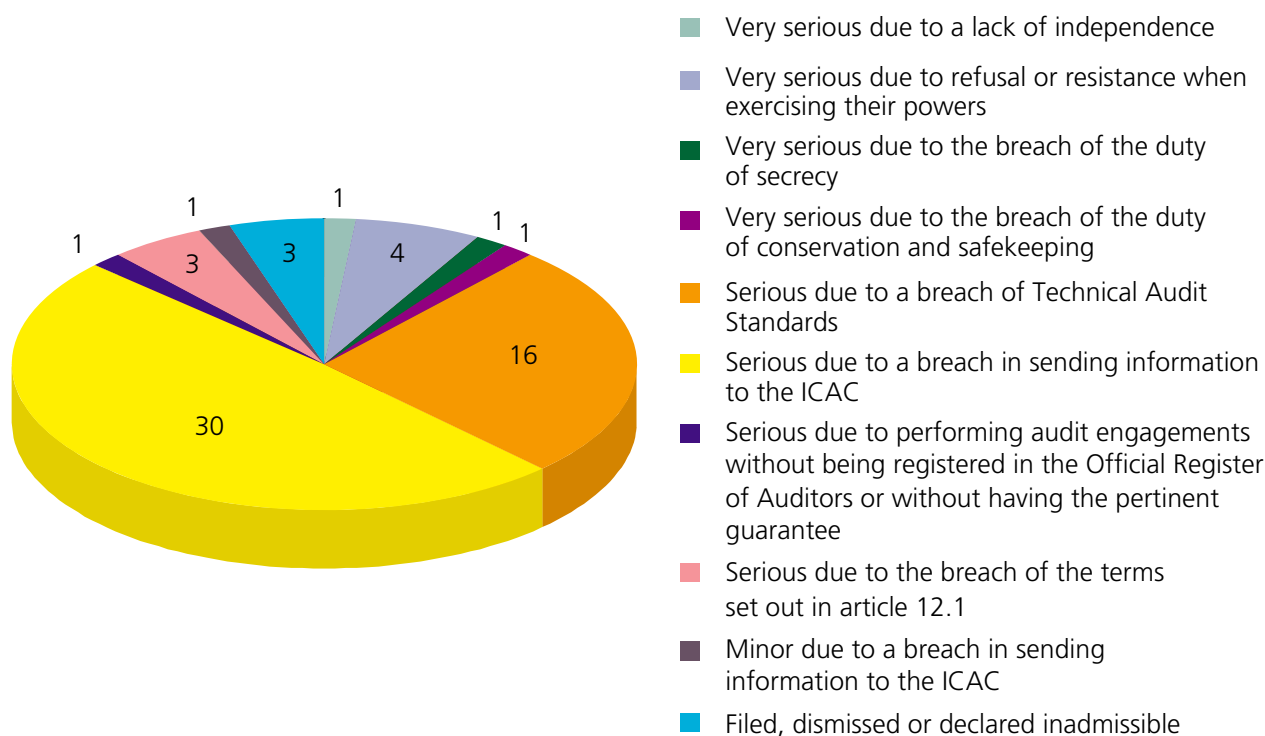


The proceedings that were resolved regarding audits were declared to be breaches of audit regulations, according to the following details:

Disciplinary proceedings settled in relation to auditing	No. of cases filed 2016	No. of cases filed 2015
Very serious due to a lack of independence	1	3
Very serious due to refusal or resistance in the exercising of their competencies	4	4
Very serious due to the breach of the duty of secrecy	1	—
Very serious due to the breach of the duty of conservation and safekeeping	1	—
Serious due to a lack of independence	—	1
Serious due to a breach of Technical Audit Standards	16	13
Serious due to a breach of the duty of rotation	—	19

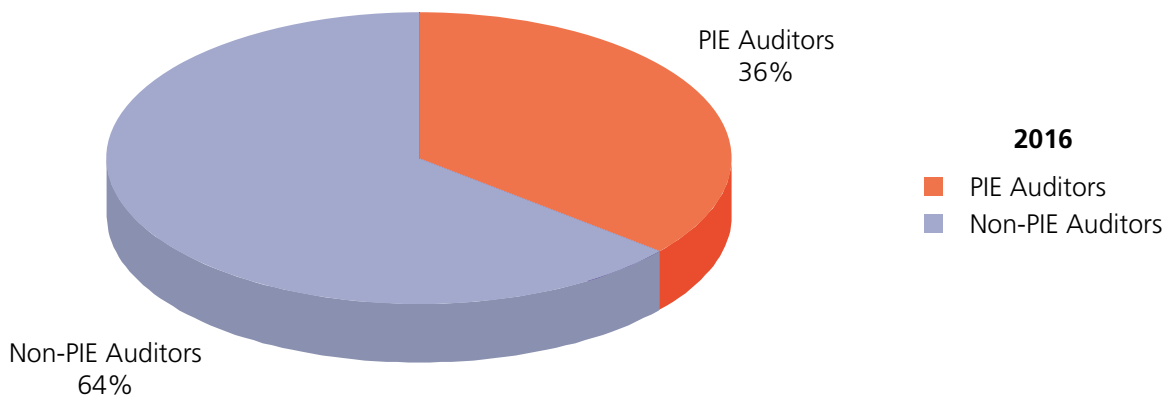
Disciplinary proceedings settled in relation to auditing	No. of cases filed 2016	No. of cases filed 2015
Serious due to a breach in sending information to the ICAC	30	6
Serious due to a breach of the duty to audit	—	1
Serious due to performing audit engagements without being registered in the Official Register of Auditors or without having the pertinent guarantee.	1	—
Serious due to the breach of the terms of article 12.1 in relation to the safeguards applied and when such measures are insufficient or non-existent.	3	—
Serious due to breach of quality control requirements	—	1
Serious due to a breach of the transparency report	—	2
Minor due to a breach in sending information to the ICAC	1	—
Filed, dismissed or declared inadmissible	3	15
TOTAL	61	65

No. of cases filed 2016



The following chart shows the breakdown of the cases resolved in relation to the number of auditors for which disciplinary proceedings have been processed, differentiating between PIE auditors and non-PIE auditors, according to the data included in the following table:

	2016	2015
PIE Auditors	17	13
Non-PIE Auditors	30	37



In addition to the foregoing, it should be pointed out that during 2016 the following appeal reports were issued, lodged in accordance with the provisions of Article 47 of the Law on Auditing (previously Article 27.5 of the TRLAC) in relation to the disciplinary proceedings processed in the Sub-Directorate General of Technical Audit Standards, as well as the following reports on appeals for reconsideration lodged in accordance with Article 112.1 of Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations (previously Article 107 of Law 30/1992, of 26 November, on the Legal Regime of Public Administrations and the Common Administrative Procedure):

Appeal reports	2016
Appeal reports from audit cases	30
Appeal reports from account deposit cases	28
Reports on appeals for reconsideration	3

Furthermore, a total of 18 disciplinary proceedings have been referred to different courts.

This financial year, the staff assigned to the Sub-Directorate General of Technical Audit Standards consisted of 7 members of staff from this Sub-Directorate, assisting the Office of the Chairman in preparing the acts under his responsibility set out in said proceedings and ensuring said action is compatible with that corresponding to the rest of the regulatory and consultancy tasks set out relating to audits.

AUDITOR TRAINING

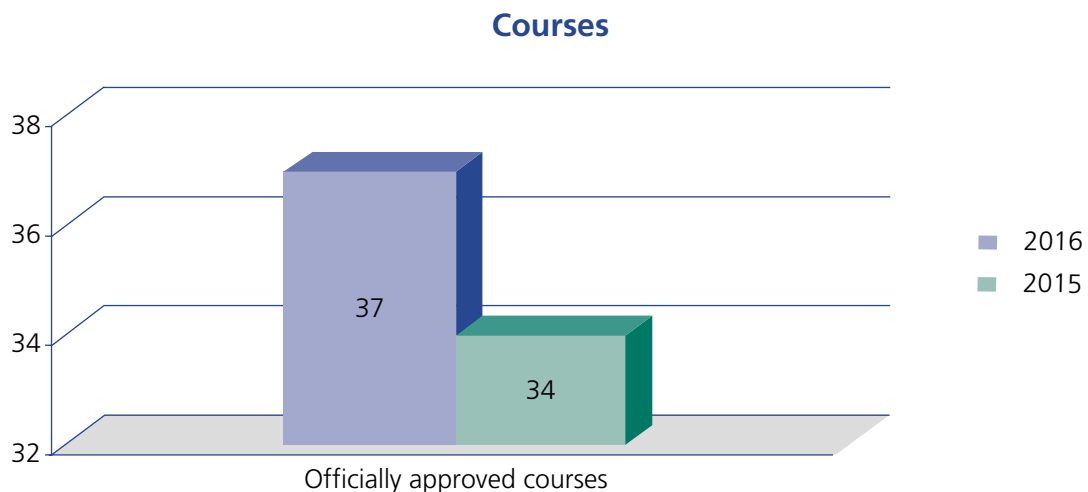
In accordance with audit activity regulations, the Sub-directorate General of Technical Audit Standards is responsible for exercising the powers attributed to the ICAC pertaining to coordination and promotion of the selection, training and improvement of auditors.

Access

In the exercise of such powers, the ICAC is responsible for officially approving the theoretical training courses required for access to the Official Register of Auditors, for recognising the training centres that give those courses and for approving exemption from the theoretical training courses and the first phase of access to the Official Register of Auditors.

During 2016, 37 files for the official approval of theoretical educational programmes for access to the Official Register of Auditors were resolved, with the following details:

- 26 official degrees valid in the entire national territory (Official University Masters Degrees), for the purposes of exemption from the first part of the ROAC access examination.
- 9 university qualifications, which are officially approved as theoretical educational programmes for access to the ROAC.
- 2 theoretical educational programmes for access to the ROAC, which were approved by each of the professional associations representing auditors.



Within this same scope of action, official university bachelor degrees were evaluated, submitted by universities themselves for the purpose of granting generic exemption for certain subjects of theoretical educational already passed to obtain said degrees. Individual requests for exemption based on official degrees were also evaluated, according to the following details:

- 1 partial generic exemption for bachelor’s degrees at the request of a university.
- 75 specific exemptions for official degrees upon individual request.

Ongoing training

In accordance with articles 8.7 of Law 22/2015, of 20 July, on Auditing, and 40 to 42 of the implementing Regulation of the consolidated text of the Audit Law, approved by Royal Decree 1517/2011, of 31 October, the auditors must follow and report on ongoing training activities as well as justify these as from the 1 October 2013 and for the period covered by the immediately preceding 12 months. For the purpose of this obligation, said activities must be given by recognised centres or must be individually approved, in accordance with the provisions set forth in the Resolution of 29 October 2012, thereby developing different aspects related to the ongoing training obligation of auditors recorded in the Official Register of Auditors, whether they are exercising their profession or not and who provide services as employees.

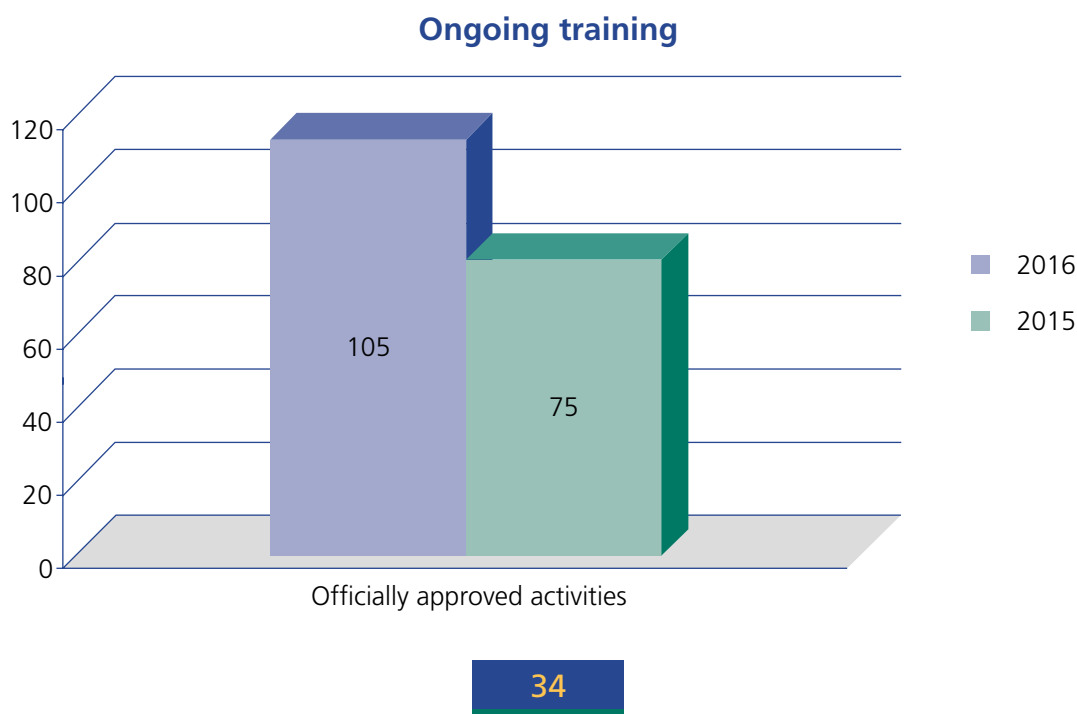
In the exercise of such authority, the ICAC is responsible for recognising the centres that are qualified to give ongoing training activities, as well as the determined activities to be conducted by certain entities or centres, in accordance with the conditions included in the aforementioned Resolution.

Universities, organisations, groups of organisations and groups of auditors have been recognised within the scope of promoting the required ongoing training, and official approval has been given to the following activities, which can be counted for the purpose of the ongoing training of auditors, according to the following details:

- 105 officially approved activities, given by 8 different professional institutions or associations and public centres or institutions, in accordance with the conditions set out in article 23 of the said Resolution.
- 2 recognised training centres.

Along with these centres, it should be pointed out that the professional associations representing auditors are recognised centres, given that it is thus set forth in Article 8 of the Law on Auditing, without the need for prior acknowledgement by the ICAC.

Similarly, 6 requests for partial exemption requests have been processed and resolved of the obligation to take ongoing training courses for the reporting period comprised between 01 October 2014 and 30 September 2016.



INTERNATIONAL ACTIVITY

The Sub-Directorates General of Technical Control and Technical Audit Standards regularly participate at the international meetings, 13 being the number of these meetings in 2016, relating to the following organisations:

- European Union committees.
Audit Regulatory Committee (AuRC): integrated by authorities with regulatory authority regarding audits of the different Member States of the European Union.
- European Group of Auditors Oversight Bodies (EAOB) subgroup for the establishment of the CEAOB (Committee of European Auditing Oversight Bodies), consisting of representatives of the European auditing oversight bodies to discuss the composition, structure, rules of operation and mandate of the CEAOB.
- Plenary sessions of the Committee of European Auditing Oversight Bodies (CEAOB).
- Subgroup of CEAOB Auditing Standards.
- European Audit Inspection Group (EAIG): a working group within the scope of Europe and in which mainly experiences are shared regarding inspections and audit deficiencies detected in inspections, dialogue with audit firms, the inspection methodology and also with issuers of international standards on auditing and ethics (IAASB and IESBA). The activities of this group have been passed on to the CEAOB Inspection Group.
- Banking/Financial Services subgroup: European level working group established by the EAIG consisting of Inspectors with experience in the auditing of banks and other financial institutions. This subgroup deals with GSIB-type entities (Global Systemically Important Banks) and GSII-type entities (Global Significant Insurance Groups) and facilitates the exchange of practices and deficiencies identified by supervisors regarding inspections of the audits of financial institutions. In addition, the subgroup strengthens dialogue with the EBA, EIOPA and ESMA in matters relating to such institutions. The activities of this group have been passed on to the CEAOB Inspection Group.
- College of Competent Authorities: established for each of the 4 major European audit firms. Each of these subgroups is responsible for the preparation and ongoing dialogue with each of these firms.
- International Forum of Independent Audit Regulators (IFIAR): with an international scope and with the objective of exchanging experiences and knowledge regarding inspections and technical audit regulations. This Forum holds both Plenary sessions and group sessions.
- Competent authority of the United States of America (PCAOB): Joint inspection activities.

In addition to the presence of this Institute in the previous meetings, the Sub-Directorates General of Technical Control and Technical Audit Standards regularly participated in conferences, 26 being the number in attendance at these conferences calls in 2016, relating to the following groups:

- European Audit Inspection Group (EAIG): attendance at 2 specific conference calls to discuss the modification requirements for the international standards on auditing, in light

of the deficiencies identified in the inspections performed by the EU supervisors, propose that they be communicated to the IAASB and IESBA, and also propose a response to the international standard drafts issued by said international standard setters.

- Standards Coordination Working Group (SCWG): attendance at 19 conference calls; 12 monthly conferences to plan the actions and schedules of the subgroup regarding the comment letters on Standards (IAASB) or responses to requests from IFIAR Officers; a discussion is held regarding the opportunity to hold specific conferences with IAASB and/or IESBA; the subgroup is informed of the meetings that the IFIAR Officers or the Office of the Chairman of the subgroup has held with other agencies (IOSCO, PIOB, etc); the presidential meetings of the subgroup are planned; follow-up is performed on the points agreed in previous conferences, along with 7 specific conference calls to discuss the modification requirements for the international standards on auditing and ethics, in light of the deficiencies identified in the inspections performed at international level, propose that they be communicated to the IAASB and IESBA, and also propose a response to the international standard drafts issued by said international standard setters; and follow up on the actions carried out by the IAASB and IESBA regarding the issues included in the IFIAR letters sent to said international standard setters. Colleges of Regulators: attendance at 9 conference calls to discuss formulas for sharing information among regulators.
- Group for the creation of CEAOB: attendance at 2 conference calls to discuss the mission of CEAOB, its functions, its operating rules and its sub-groups.
- EGAOB subgroup on Market Monitoring: attendance at 2 conferences to discuss the content and structure to be issued by competent authorities on audit market monitoring.
- CEAOB Auditing Standards subgroup: attendance at 1 conference call to discuss the preparation of a questionnaire to understand the differences between the Auditing Standards applicable in member states and the International Standards on Auditing issued by the IAASB.

Finally, in 2016, the Sub-Directorate General of Technical Audit Standards processed the Addendum to the Statement of Protocol between the Public Company Accounting Oversight Board (PCAOB) of the United States and the Accounting and Auditing Institute, in order to adapt the Statement of Protocol signed in 2012 to the new Implementing Decision (EU) 2016/1156, of 14 July 2016, on the adequacy of the competent authorities of the United States of America pursuant to Directive 2006/43/EC of the European Parliament and of the Council, and also to adapt the references contained in the Statement of Protocol to the consolidated text of the Law on Auditing to new Law 22/2015, of 20 July, on Auditing and to adapt the content of the protocol to the new Article 67 of said Law.

MANAGEMENT OF RESOURCES AND THE OFFICIAL REGISTER OF AUDITORS

In addition to the aforementioned activities, the ICAC performs other activities through the office of the General Secretariat. The most noteworthy of these are described below:

Maintenance of the Official Register of Auditors (ROAC)

Access to the ROAC is by means of meeting the requirements and passing the tests set out under Audit Law 22/2015, of 20 July, and in the implementing Regulation of the consolidated text of the Audit Law, passed by Royal Decree 1517/2011, of 31 October. Only the auditors who are members of this Register may issue official auditors' reports.

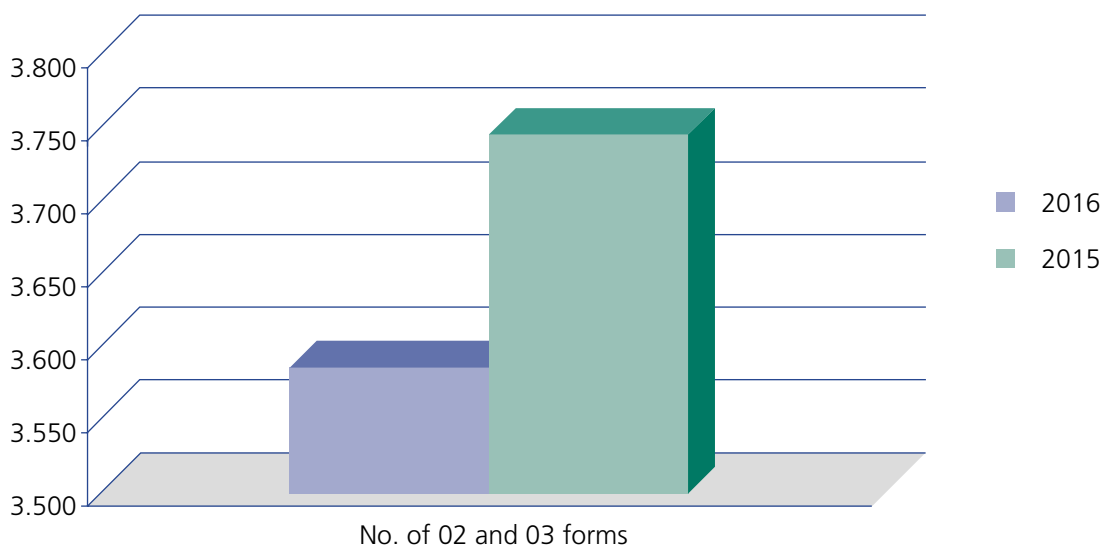
The following activities were performed in relation to the ROAC:

ROAC	2016	2015
No. of 02 and 03 forms received	3,591	3,762
Modifications of auditors and audit firms (*)	850	615
Registration of auditors	396	55
De-registration of auditors	54	57
Registration of companies	53	37
De-registration of companies	49	48
Certificates issued	1,836	5,199
FEE (Art.87 LAC): CROSSOVER BETWEEN FORMS 02 / 03		
Settlement proposals	662	534
Amount	392,882.09 €	188,480.91 €
Settlement proposals filed	92	70
Amount	34,445.22 €	25,897.85 €
Provisional settlements	569	467
Amount	253,120.73 €	203,786.83 €
Revenue from proposals or settlements	445	341
Amount deposited	201,675.63 €	109,619.50 €
Late payment surcharge (Art. 27 LGT)		
No. of Surcharges (**)	0	0
Amount deposited	0.00 €	0.00 €

Enforced tax collection		
Debts sent to the Spanish Inland Revenue for enforced tax collection	115	135
Amount	51,742.90 €	63,647.37 €

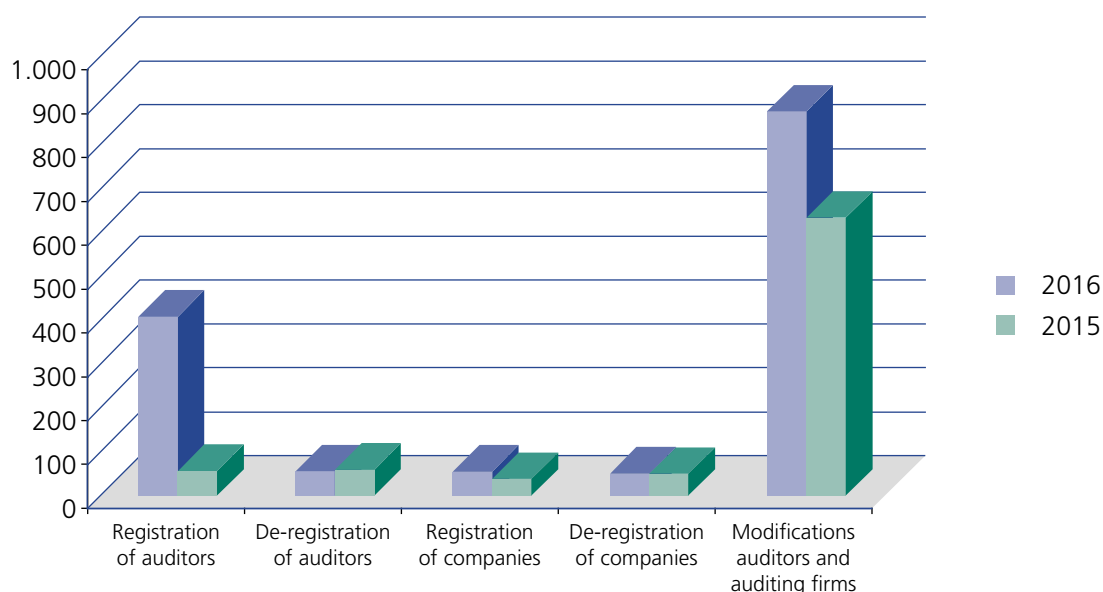
(*) As of 30 March 2016, the number of requests submitted by auditors (forms R21, R31, R32 and R33) and audit firms (forms R51 and R52) regarding changes of situation and modification of data were taken into account.
 (**) In 2015 and 2016, there was no notification of surcharges for extemporaneous payment of the fee.

Information provided by auditors and firms

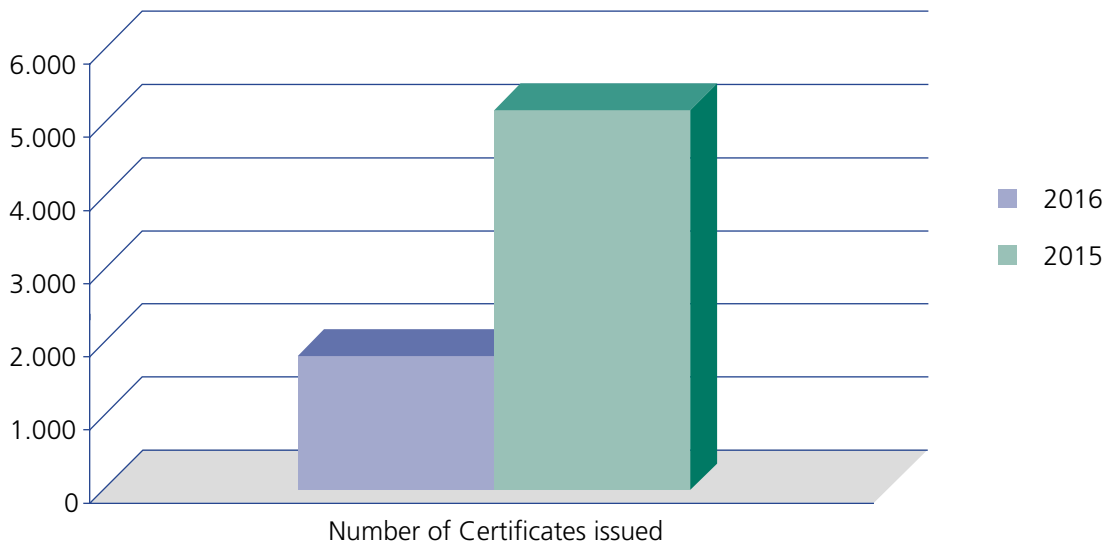


Forms 02 and 03 refer to those approved by the ICAC Resolution of 29 June 2012 (amended by the Resolutions of 25 July 2014 and 31 October 2016), for the provision of the compulsory information by auditors and audit firms.

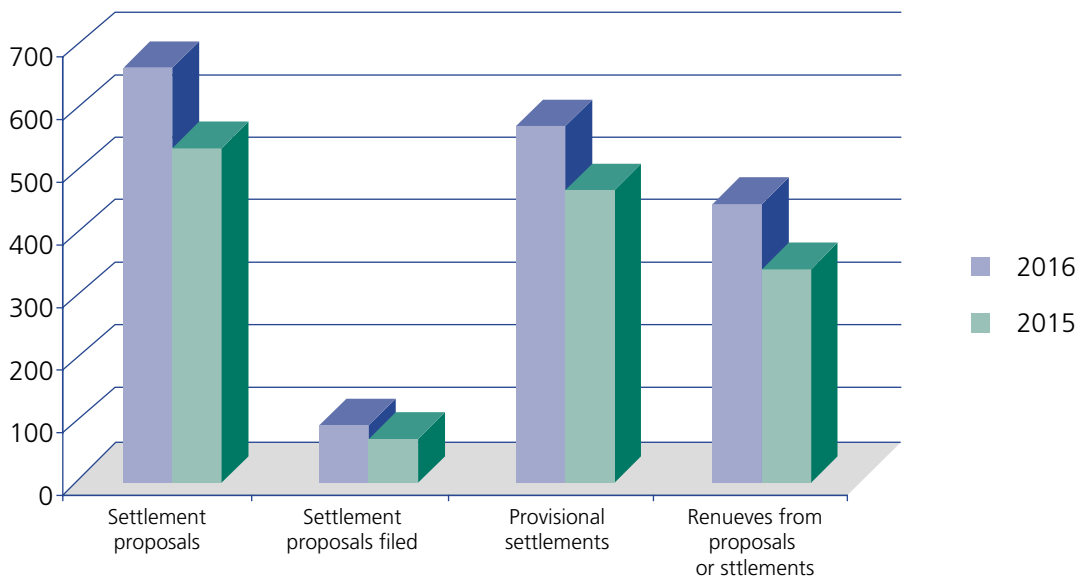
Official Register of Auditors



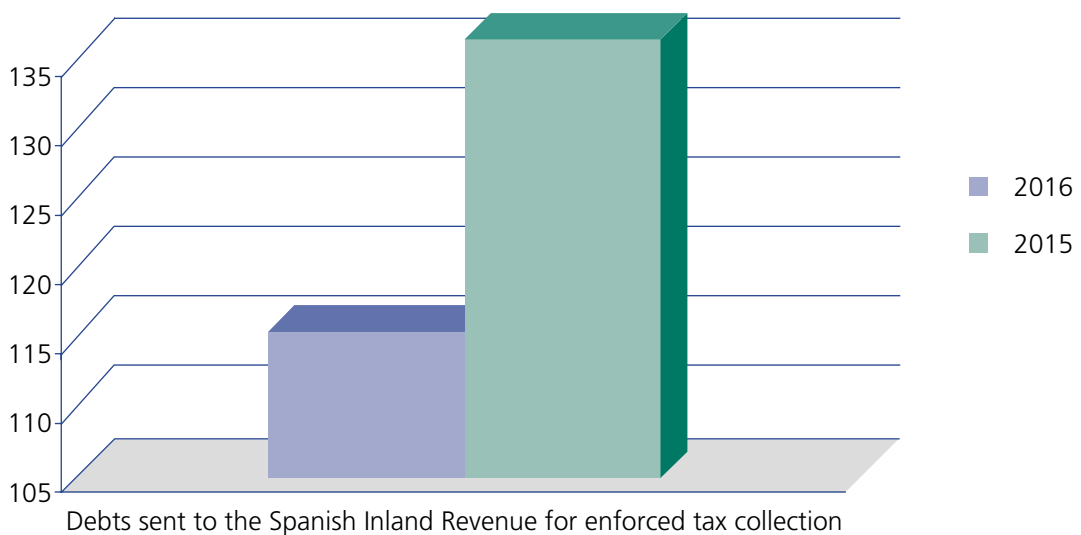
Certificates issued



Management of the fee



Enforced tax collection

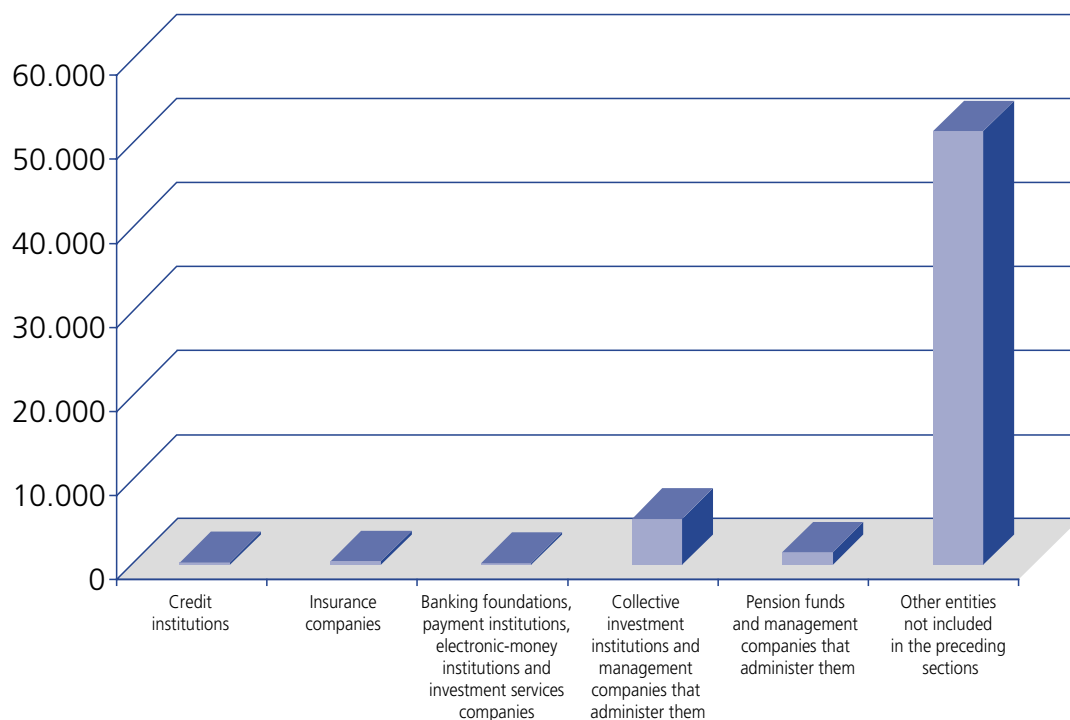


Practising auditors and audit firms declared a total of **59,598 audit engagements** to the ROAC between 1 October 2015 and 30 September 2016.

The breakdown by type of audit is as follows:

Audit engagements	NUMBER	%
Credit institutions	333	1
Insurance companies	440	1
Banking foundations, payment institutions, electronic-money institutions and investment services companies	227	0
Collective investment institutions and management companies that administer them	5,470	9
Pension funds and management companies that administer them	1,489	2
Other entities not included in the preceding sections	51,639	87

Audit engagements



Based on the data contained in forms 02 and 03 provided by the practising auditors and audit firms, relating to the period between 1 October of the previous year and 30 September 2016, the annual report entitled "The auditing situation in Spain" is prepared. According to the report on the Auditing Situation in Spain in 2016, the number of practising auditors was 4,102, of whom

2,308 work as independent contractors and 2,579 work for companies (1,062 auditors are both independent practising auditors and partners or auditors appointed by audit firms). The number of firms inscribed in the ROAC was 1,384.

A total of 9,920,917 hours were invoiced, 9,405,867 of which were billed by audit firms and 515,050 by auditors working as independent freelancers.

Electronic administration

The ICAC currently has an electronic sub-site, which is part of the electronic site of the Ministry of Economy, Industry and Competitiveness.

In accordance with the provisions set forth in Law 11/2007, on electronic access to public services by citizens, this electronic site is available to citizens through the telecommunications networks owned, operated and administered by the public administration or an administrative body or entity in the exercise of their functions. One of the purposes of this site is to comply with the principle of accessibility to information and services by electronic means pursuant to the terms of the laws in force through systems that enable the obtainment of such information and services in a safe and comprehensible way and that guarantee universal accessibility and a design which can accommodate all media, channel and environments so as to ensure that everyone can exercise their rights under equal conditions, incorporating elements to guarantee accessibility by certain groups as needed. The address of the electronic website of the Accounting and Auditing Institute is located at URL: <http://icac.gob.es> the management and maintenance of which corresponds to the IT Department of the General Secretariat. With the entry into force of Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, the general features with regards to the electronic site shall remain in effect as of 2 October 2016.

The citizens place their trust in the fact that the services available by electronic means are rendered under security conditions equivalent to those found when they personally approach the offices of the Administration. Law 11/2007, of 22 June, on the electronic access of citizens to Public Services, establishes principles and rights relating to the security relating to the right of the citizenry to communicate with the Public Administrations by electronic means; and its article 42 created the National Security Scheme. The National Security Scheme (NSS), which remains in effect due to Law 39/2015 and which is regulated by Royal Decree 3/2010, of 8 January, determines the security policy to be applied when using electronic media. In complying with this regulation the Institute carries out the adaptation and maintenance of the National Security and Interoperability Scheme.

From the IT department the same tasks of analysis, development, and design of applications in pre-production and production in Microsoft Visual Studio are carried out. Net and Portal Web (Ibermática) that provide support to the different actions carried out by the different sub-directorates of the Institute. For this purpose the Technical Specification Documents are prepared that encompass the required specifications, for which the different sub-directorates involved have provided their support. Subsequently the follow up and support is performed in the applications that have been developed (Filing of Accounts, Registration, Quality Control, ROAC, Paws, Vision and knosys) and the databases are prepared in SQL Server 2012, for the creation of dynamic pages.

Regulatory Projects and the Audit Committee

During this period, 66 reports and queries of the General Secretariat were carried out.

Organisation and coordination of the meetings of the Audit Committee (7 meetings in 2016), as well as the drafting of the minutes.

Research, studies, documentation, distribution and publication activities intended to develop and perfect accounting standards and the accounting profession

One of the studies published every year refers to the audit situation in Spain. The Report on the Status of Auditing in Spain in 2015 has been published in the Official Gazette of this Agency for March 2016 (BOICAC number 105).

It is noteworthy that the quarterly publication of the Official Gazette of the Institute (BOICAC) entails, as well as complying with the provisions of Law 22/2015, of 20 July, on Auditing and other rules governing the activity of the ICAC, the disclosure of any relevant aspect in accounting and auditing matters. Additionally, the website of the Institute provides information on the content of each BOICAC, as well as the enquiries addressed to this Agency with an issued response, which in the interests of disclosure are published in the Institute's Gazette so that they may be generally studied.

Likewise, through the editing and sale to the public of a subscription, we provide access to the International Standards that are adopted by the European Union, which are published beforehand in its Official Journal (OJ).

In 2015, the Cooperation Agreement was signed between the Accounting and Auditing Institute (ICAC) and the Official State Gazette Agency (AEBOE) for the Co-edition of the "CODE OF FINANCIAL AND COMPANY ACCOUNTING".

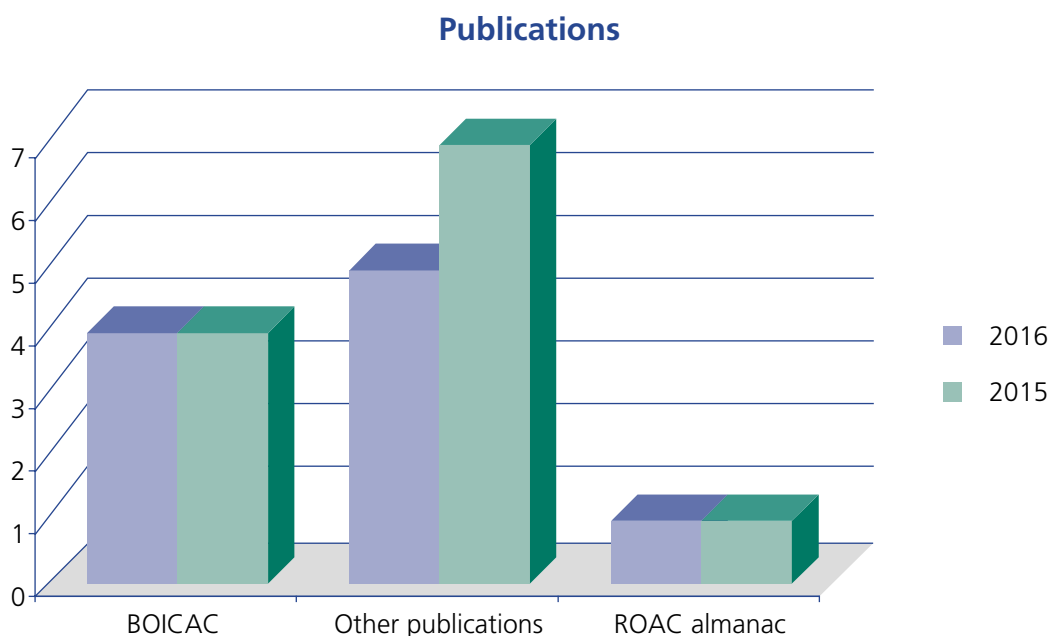
The warm welcome this code received has continued in 2016 with the publication and signing of another agreement to draw up the "AUDIT CODE".

Both publications are freely and openly available on the website of the AEBOE, which is updated when any standard is published that the ICAC believes forms a fundamental part of the regulations on Accounting or Auditing.

In order to protect the publishing rights of the titles that the ICAC publishes, in compliance with that set out in the Intellectual Property Law (amended by Law 21/2014), this organisation is incorporated in the framework of the agreement signed between the Ministry of Economy and Competitiveness and the CEDRO Association. Through this association they collect and deposit into the Treasury the amounts relating to the use and reproduction of the books published by this Institute.

In brief, the specific actions developed in 2016 regarding titles published with respect to the previous year, were as follows:

Publications	2016	2015
BOICAC	4	4
Other publications	5	7
ROAC almanac	1	1



As regards the promotion of research, it should be noted that on an annual basis, and in coordination with the Association of University Accounting Teachers (ASEPUC), several awards are granted each year: The announcement for the following awards was published in BOICAC no. 105/March 2016:

- Award for Accounting Research Projects “José María Fernández Pirla” (XXIV Edition)
- Award for best unpublished work in the area of accounting and auditing “Carlos Cubillo Valverde” (XIX Edition).
- “ASEPUC” award for Doctoral Thesis (XII Edition)
- “ASEPUC” award for Master’s Dissertation (IV Edition) (BOICAC no. 105/March 2016).

Decision on the announcement of these awards was published in BOICAC 108/December 2016.

In 2016, for the purpose of disseminating award-winning works in different years, this institution has continued to use digital support for awarded titles. These works are freely and openly available online at the website of the ICAC.

Similarly, online and free access to the BOICACs is encouraged as the printed copies run out.

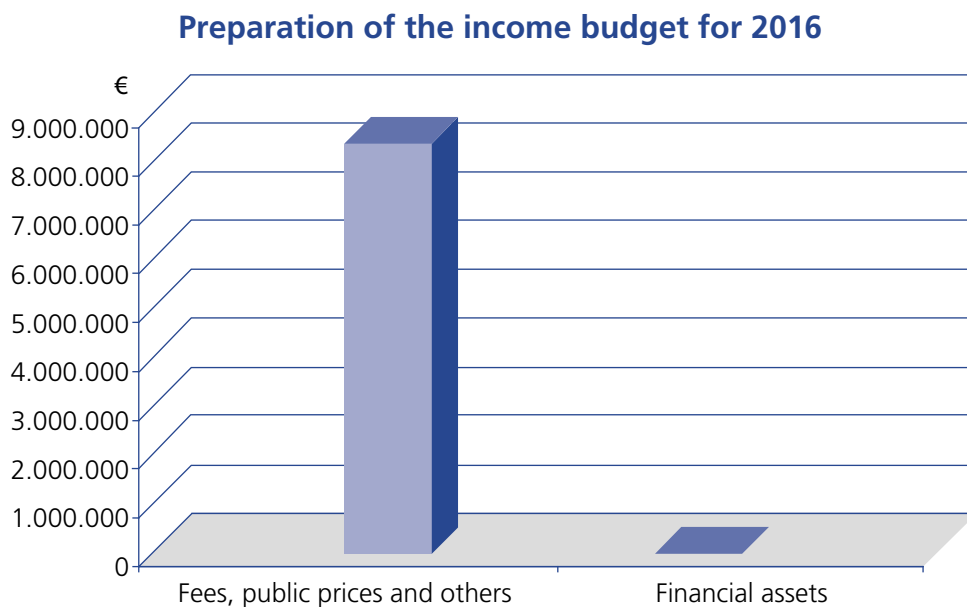
Also, the search for documents published on the latter is made easy through the summaries that are in the file for each gazette, publicly available on the website of the Agency. They are published and sold as a subscription.

ECONOMIC-FINANCIAL INFORMATION

Economic data

The Accounts department is responsible for preparing the accounts and the budgets and presenting these. In 2016, the ICAC earned a total income of €8,629,939.67, which is broken down as follows:

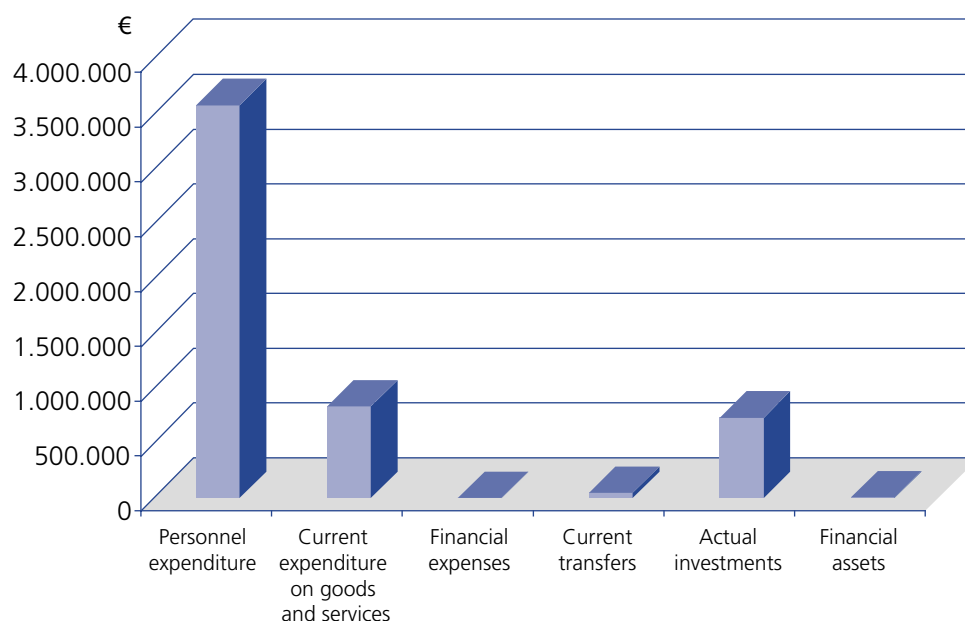
Chapter	Preparation of the income budget for 2016	€	%
III	Fees, public prices and others	8,626,561.85	99.96
VIII	Financial assets	3,377.82	0.04
TOTAL		8,629,939.67	100.00



In 2016, the expenses amounted to €5,201,736.19, with the following breakdown:

Chapter	Implementation of expense budget 2016	€	%
I	Personnel expenditure	3,580,652.40	68.84
II	Current expenditure on goods and services	835,948.36	16.07
III	Financial expenses	0.00	0.00
IV	Current transfers	46,790.00	0.90
VI	Actual investments	731,868.62	14.07
VIII	Financial assets	6,476.81	0.12
TOTAL		5,201,736.19	100.00

Implementation of expense budget 2016



Financing sources

The ICAC 100% self-finances its activities. Its main source of financing is the income obtained by two types of fees managed and collected by this body, regulated under Title IV of the Audit Law:

- a) The ICAC fee for the oversight of the audit activity (Art. 87): The exercise of the audit oversight powers vested in the ICAC is the taxable event regarding this fee inasmuch as the issuing of audit reports is concerned. It is regulated by the provisions of RD 181/2003, adapted to current needs. The fee amount is calculated in accordance with the work volume declared by auditors and audit firms, in logical correlation with the evolution of the work load of the ICAC in the supervisions to be performed according to said volume.
- b) ICAC fee for issuing certificates or documents at the request of a party and for the registrations and annotations in the Official Register of Auditors (Art. 88). The exercise of the powers vested in the Accounting and Auditing Institute with regards to issuing certificates or documents at the request of a party and the registrations and annotations in the ROAC is a taxable event. The self-assessment and payment system for this fee is set out in Royal Decree 73/2016, of 19 February, which develops the Accounting and Auditing Institute's self-assessment and payment system of this fee for issuing certificates or documents at the request of a party and for the registrations and annotations in the Official Register of Auditors.

In addition, the Institute has some less important income from sales of publications.

Contracting

To perform all the activities it has been necessary contract and signing the agreements which are summarised below:

1. Processing of contracts: the contracting or extension of security and surveillance services and those for cleaning, electricity supply, postal services, printing and distribution of the BOICAC and the Yearbook of the ROAC and of the NIIFs, several contracts for assistance to the ICAC under Additional Provision 3 of the TRLAC, IT-related services for the maintenance of applications and phase 3 of evolutionary and adaptive development of the ROAC, implementation of the National Security Scheme (NSS) and the LOPD audit, the purchase of books and publications that form the bibliographical foundation of the ICAC, the maintenance of lifts, buildings, air conditioning installations, translations, occupational hazard prevention, support service to the library of the ICAC, service of assistance and advice in accounting matters, budgetary and tax regime, service of support in administrative tasks relating to personnel management, English lessons for the staff of the ICAC, contract for advice on matters regarding auditor training, contract with IFAC for the rights to reproduce two works during 2016, minor works at the ICAC, contracts for the distribution of publications, the payment of municipal taxes and the fee as a member of the International Audit Supervisors Forum (IFIAR) for 2016.

The processing includes all the phases: spending proposal and approval of it after prior control, commitment, recognition of the obligation and payment order, and your shipment to intervention and its forwarding to Intervention after favourable approval, the adoption of the related agreements. In the language class contracts, groups are also set up, the timetables are set and all the relationships with the language academy are managed.

In the case of open procedures or negotiated procedures the preparation of the specific administrative clause specifications shall also be carried out, the forwarding for the report of the Legal Service, the holding of Contracting Tables and the drafting of the related contracts and their forwarding to the Legal Service for its report. At the Contracting Tables of the open procedures the performance of the function of Secretary, preparing the different records and communications with the bidders. For the security and cleaning competitive tenders an assessment will be carried out of the tenders submitted by the bidding companies. In the event of appeal, the written allegations and the necessary documentation must be submitted to the TACRC.

In all contracts, with the exception of the minor ones, announcements must be published on the Platform of Public Sector Contracting (both in the bidding phase as well as in the awarding and formalisation phase) and the registration in the Public Registry of Contracts. In minor contracts, the awards are published on the Platform to comply with the Transparency Act. When mandatory, official announcements must also be prepared and sent to the OJEU and/or to the Official Spanish State Gazette, for both the tendering and the awarding.

For contracts with an amount equal to or greater than €50,000, the request is made for a representative of the IGAE for the verification of the investments.

In certain contracts depending on the amount, a statement of the filing and the contract is sent to the Accounts Court. Moreover, before the end of February of each year, a listing of contracts awarded, except for the minor ones is sent to the Accounts Court and of collaboration agreements entered into during the previous year.

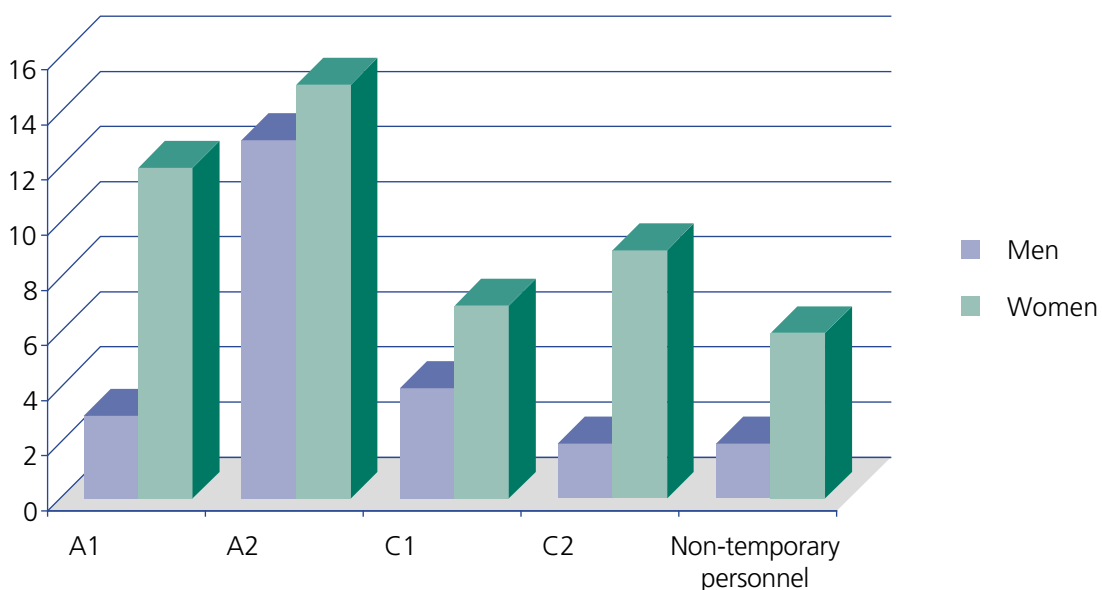
2. Collaboration agreements: Agreement with ASEPUC for the annual awarding of Awards for research in accounting and auditing. Agreement with the IGAE for assistance and hosting of the Sorolla2 and Canoa systems. Processing of the Lawyers' reports and processing of the filings in all their phases.

3. Management of payments in advance of the fixed cash fund: including payments, accounting of the operations, remitting of supporting accounts, remitting of cash statements.
4. Management of indemnities for service reasons:
 - Domestic and international per diem allowances: preparation of the orders for the performing of services for their approval, examination of the supporting documentation of the expenses made and the settlement of the related per diem and travel expenses. Where appropriate, the cash advances requested are calculated. The payment of both the advance and the settlement is made using the fixed cash advances system.
 - In town per diem: settlement of the per diem allowances that are submitted on a quarterly basis for travel within the municipality. Payment is made using the fixed cash advances system.
 - Attendance to the Accounting and Audit Committees: settlement of the related amounts for those attending and payment is made using the fixed cash advances system, management of the authorisations by the Secretariat of Budgets and Expenses, preparation twice a year, of the statistic of the amounts paid by the attendees by the different Committees, for their communication to the Ministry of Finance and Public Administrations.
 - Attendance for training courses to the personnel of the ICAC: settlement of the related indemnities, depending on the number of hours, crediting of the related income tax withholdings, management of the authorisations by the Secretariat of Budgets and Expenses, preparation every six months, of the statistic of the amounts paid, for their communication to the Ministry of Taxation and Public Administrations.

Human resources

The General Secretariat is responsible for managing all activities relating to personnel, such as: preparation of payrolls, recognition of degrees, awards of triennia, calls for competitive bids, the processing of fees from services, social action, time control, holidays, etc.

Civil Servants and Employees



The means used by the ICAC to carry out its functions in 2016 were the following:

Situation as of 31 December 2016:

TYPES OF PERSONNEL	MEN	WOMEN	TOTAL
SENIOR POSTS	1	0	1
OFFICE TEMPORARY PERSONNEL	0	0	0
CIVIL SERVANTS:			
Group A1	3	12	15
Group A2	13	15	28
Group C1	4	7	11
Group C2	2	9	11
Professional groups	0	0	0
TOTAL	23	43	66
OTHER PERSONNEL:			
Contracted administrative employees	0	0	0
Miscellaneous personnel (1)	0	0	0
TOTAL	0	0	0
NON-STATUTORY STAFF			
Chap. I Permanent	2	6	8
Cap. I Temporary	0	0	0
Chapter VI	0	0	0
TOTAL	2	6	8

