

# anual report 2017

## activity report



GOBIERNO  
DE ESPAÑA

MINISTERIO  
DE ECONOMÍA  
Y EMPRESA

**ic|alc|** Instituto de Contabilidad y  
Auditoría de Cuentas



# Annual Report of Activities in 2017

The Accounting and Audit Institute-ICAC  
Huertas, 26  
28014 Madrid  
[www.icac.meh.es](http://www.icac.meh.es)

Maquetación:  
Composiciones RALI, S.A.  
Printed: July 2018

NIPO – PDF idioma Español: 061-18-004-9; NIPO – PDF idioma Inglés: 061-18-0036-3

*Publication included in the editorial program of the abolished Ministry of Economy, Industry and Competitiveness and edited by the Ministry of Economy and Business (according to the ministerial restructuring established by Royal Decree 355/2018, of 6 June)*

# TABLE OF CONTENTS

## **PRESENTATION**

## **INTRODUCTION**

## **ACCOUNTING**

## **AUDITING**

Audit Regulations

Disciplinary Activities

Auditor Training

Access

Ongoing Training

## **OVERSIGHT OF THE AUDIT ACTIVITY: INSPECTIONS AND INVESTIGATIONS**

Introduction

Audit control activities carried out in financial year 2017

Inspection actions

Investigation actions

Evolution of control actions compared to the previous year

## **INTERNATIONAL ACTIVITY**

## **MANAGEMENT OF RESOURCES AND OFFICIAL REGISTER OF AUDITORS**

Maintenance of the Official Register of Auditors (ROAC)

Electronic administration

Regulatory projects and the Audit Committee

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

## **ECONOMIC-FINANCIAL INFORMATION**

Economic Data

Financing Sources

Contracting

Human Resources

## **ANNEXES**



## LETTER FROM THE CHAIRMAN

This Report describes the work carried out by the Accounting and Auditing Institute – “*Instituto de Contabilidad y Auditoria de Cuentas*” (hereinafter, ICAC) during 2017 in the development of its supervisory powers regarding auditing and accounting regulation. I am proud and pleased to introduce the publication of this Report, given the invaluable public service that this Institute and the extraordinary dedication and professionalism of those who provide services at this Institute.

The ICAC, in accordance with the requirement incorporated since 2010, has been pursuing the practice of developing and publicly disclosing the set of activities carried out in the performance of the applicable competencies. By providing greater transparency in this activity, we are committed to the fulfilment of our duties in an effective, efficient and clear manner.

The Report presents clearly differentiated contents due to the different matters over which the competencies attributed to the Institute are projected in relation to the accounting and auditing of accounts and within it, and in a broader scope that the regulatory standards include in the performance of audit oversight activities. The main milestones undertaken are highlighted herein, without being exhaustive.

In **accounting** terms, during financial year 2017, the annual accounts corresponding to the previous year were published, prepared in accordance with the new financial information framework that came to incorporate Directive 2013/34/EU of the European Parliament and of the Council of June 26, 2013 on annual financial statements, consolidated financial statements and other related reports of certain types of companies, which represented a significant change in the European accounting harmonization process by imposing, on the Member States, the obligation to approve maximum information requirements for the entities that do not exceed the limits that empower a company in Spain to follow the abbreviated balance sheet and reporting model, qualified as small companies.

Said regulation was incorporated into our regulation, first, through the first and fourth final provisions of Law 22/2015, of July 20, 2015, regarding the Audit of Accounts, and secondly, then developed by Royal Decree 602/2016, of December 2, 2016, by which the General Accounting Plan (PGC) approved by Royal Decree 1514/2007, of November 16, 2007 is modified; the General Accounting Plan for Small and Medium Enterprises approved by Royal Decree 1515/2007, of November 16, 2007; the Regulations for the Formulation of Consolidated Annual Accounts approved by Royal Decree 1159/2010, of September 17, 2010; and the Regulations for Adaptation of the General Accounting Plan to non-profit entities approved by Royal Decree 1491/2011, of October 24, 2011.

During this financial year, the Institute, in addition to the *evaluation of the queries* formulated on the accounting treatment of specific situations and the preparation of mandatory reports regarding the standards made by other Public Administration bodies or other Public Institutions,

has dedicated its efforts in the execution of *three projects* of different and relevant depth and over which it is necessary to highlight some passages.

The first of these is the draft Resolution of the ICAC, which approves the criteria for the presentation of financial instruments and other accounting aspects related to the commercial regulation of corporate enterprises. The main objective of this standard is to develop the presentation criteria in the balance sheet of financial instruments (shares, stakeholdings, obligations, etc.) in line with the International Accounting Standards adopted by the European Union (IAS 32) on this matter. In addition, mainly based on the aforementioned criteria, numerous accounting implications of the commercial regulation of corporate enterprises are clarified. Therefore, the Institute seeks to fill the gap that existed on certain treatments and provide legal certainty in the application of accounting regulations.

The second project on which the Institute has been working is the draft Royal Decree by which the General Accounting Plan is modified, among other regulations, in order to take into consideration two highly relevant standards approved in accounting matters at an international level. They affect the treatment of financial instruments and the recognition of income from customer contracts (International financial reporting standards, IFRS 9 and IFRS 15, respectively).

The preparation of this draft has followed the convergence approach in order to adapt accounting regulations in line with international standards, within the framework of the Accounting Directive, in everything that is considered an improvement of the internal financial information framework but taking into account the reality of the economic operators that apply the General Accounting Plan. Thus, it is intended to keep an adequate balance in the new information considering the peculiarities of small and medium-sized entities and the non-financial entities, in accordance with the principles of proportionality, simplification and adequacy.

Thirdly, we have been working on the drafting of the Resolution of the ICAC, which establishes rules for the registration, valuation and preparation of the annual accounts for the recognition of income regarding the delivery of goods and the provision of services, which forms the third of the projects in which this Institute has been working and which is soon expected to come to fruition.

It is worth highlighting, inasmuch as it contributes to the correctness of its content and the proposed solutions, the valuable participation in its drafting of members of the working groups created within ICAC's Accounting Consultancy Committee.

In regard to **accounts auditing**, the year 2017 is the first year in which Law 22/2015, of July 20, 2015, on the Auditing of Accounts, has been fully applicable, by which Directive 2014/56/EU of the European Parliament and of the Council of April 16, 2014, was incorporated into our ordinance, amending Directive 2006/43/EC of the European Parliament and of the Council of May 17, 2006, on the statutory audit of annual accounts and consolidated accounts, and in which the options contained in Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014 on the specific requirements for the legal audit of public interest entities and which repeals Commission Decision 2005/909/EC.

The purpose of this new regulation is ultimately to increase the quality of audits, thereby contributing to improve confidence in the financial and economic information that is audited, thus responding to the need to protect the public interest served by the account auditing activity. Hence,



they impose, among other items, greater requirements for communication and transparency (in order to strengthen confidence in the role of the auditor), independence (a fundamental pillar on which trust in the audit report lies), mainly for those who audit public interest entities, and internal organization and audit work. In this regard, during 2017, the first audit reports were issued in accordance with the new regulatory requirements.

The main and most relevant activity of the Institute during 2017, in relation to the audit of accounts has been focused on the *drafting of the Regulations for the development of the aforementioned Audit Law*. In compliance with the legal authorization contained in said text, it is worth highlighting the intense work done in the preparation of a project with the ultimate goal of providing legal certainty to the application of the regulations governing the audit activity, specifying the scope of questions in respect of which doubts had been raised and enabling the full application of the aforementioned EC legislation. Apart from the legally required procedures, the active and constant participation of associations representing auditors has been included in its drafting.

Furthermore, the rest of the actions related to the regulation of the audit activity has maintained a rhythm similar to that of previous years, highlighting in volume *audit queries* over regulatory reports.

As in previous years, the report pays special attention to the general results and conclusions reached in the development of the *inspections carried out by the internal quality control systems of auditors and audit firms*. The ICAC, through the inspections, aims to promote the necessary improvement of the quality in carrying out the audit activity.

In compliance with this objective, the ICAC has directed the audit control activities in 2017, mainly, regarding the increase in inspections, compared to those carried out in the previous year. In this sense, taking into account the limited resources, two inspections have been completed in 2017, in whose scope the largest number of audit works or engagements to date has been included (13 entities, of which 10 are public interest entities), given that its greater economic relevance demands greater protection of the public interest entrusted to the Institute.

Regarding the last inspection carried out on one of the audit firms, it has been observed that the significant findings detected at that time have not been disclosed in the inspection carried out during 2017, which implies an improvement in the quality of the work carried out by said firm. However, the number of audited entities remains high, for which the auditors, included in the scope of the inspection, had some significant deficiency, which is why the inspected internal systems of quality control and procedures of the audit firms will continue to be strengthened.

Regarding the *disciplinary activities* carried out by the ICAC during 2017, consisting of the processing of administrative disciplinary proceedings for noncompliance with the auditing of accounts and the processing of disciplinary proceedings for breaches of the obligation to submit annual accounts for their filing in the Commercial Registry, has maintained an evolution similar to that of previous years, in terms of the nature of the declared breaches.

Likewise, the activity of the Institute in relation to the *training obligation, both prior and ongoing*, that auditors have, has presented similar levels to those of previous years, highlighting the increase of approval proceedings of theoretical educational programs for access to the Official Register of Auditors.

Moreover, it should be noted that the applications of the *Official Register of Auditors* have been modernized, laying the foundations for a fully electronic administration as of 2018, with the information that was already received electronically since 2015 in the statements of the auditors and audit firms. During 2017, there have been modifications in these statement forms for the objective of improving both the management of the register and the audit oversight.

In relation to the two areas in which the ICAC deploys its activity, the report describes the main advances or participations in the *international forums* in which the Institute participates. In 2017, it is appropriate to highlight the active incorporation of the Institute into the activity of the EFRAG (European Financial Reporting Advisory Group), a circumstance that will undoubtedly contribute to our country in a more direct way in the development and promotion of European reports in the field of financial and economic information, with the aim that these assessments are adequately considered by the International Accounting Standards Board (IASB) of the IFAC (International Federation of Accountants), since its inception, in the process of preparing international financial information standards. The accounting convergence strategy regarding these standards that are followed in Spain, based on a critical analysis of European regulations, will allow us to carry out this task with solvency and will undoubtedly contribute to enrich the debate on the new pronouncements that will be adopted at an International level.

Finally, and as it contributes to better compliance with the applicable functions, it should be noted that, despite the lack of personal resources available, considerable progress has been made in complying with the requirements that, in matters of electronic administration, required by Law 39/2015, of October 1, 2015, regarding common administrative procedures of the public administrations, and Law 40/2015, of October 1, 2015, related to the legal regime of the public sector.

As for the *future*, important challenges remain that must be faced this year and in the future. Thus, in accounting matters, the approach of adapting accounting regulations to international financial reporting standards must be consolidated, with critical analysis and in all that involves an improvement of the financial reporting regulatory framework applicable to non-financial entities, taking as criteria the simplification, adequacy and proportionality criteria, as well as the reality of the operations carried out by the entities that apply the aforementioned framework;

In terms of accounts auditing, firstly, it is necessary to contribute to consolidate the auditing role in greater value attributed to the financial and economic information that is audited. With the new audit reporting model, with more useful and relevant information that helps to understand the situation of the audited entity and to better inform the decision making of users, there is an opportunity to raise awareness about the importance and value of the audit activity and the service it provides.

Secondly, auditors must adapt their organisation to the new regulatory requirements, and without the supervisor having to intervene in strategic decisions. Auditors should not miss the opportunity to seek collaboration or association formulas that allow them to face a very dynamic and complex environment, subject to many changes, which affects both the auditor and the audited entity. This could also be used to overcome the expansion difficulties of smaller audit firms.

Thirdly, technological challenges must be kept in mind. In this context, the challenges regarding the existence of massive data processing and computer security tools are particularly important. While it is true that auditors must adapt their risk assessment processes and adequate responses to manage such risks, technological advances will bring opportunities to improve the efficiency of audit processes and more time will be spent in judgment matters.

Only by addressing these challenges and reinforcing oversight, will it be possible to strengthen the value of the audit, thereby contributing to increasing the reliability and credibility of the audited information, and improve the internal control systems of the audited entity (including the detection and prevention of errors), with the consequent positive effect on the decision-making process, on the operation of the economy and a greater protection for users.

In this sense, the Institute, in all its areas, counts on a team of professionals with a great vocation for service and commitment to public service, which is a good starting point to overcome these challenges.

I do not wish to end the presentation of this Report without expressing my most sincere thanks and appreciation to all ICAC staff who, with their professional responsibility, dedication and effort, makes it possible to offer this presentation for one more year.

Madrid, June 2018

ENRIQUE RUBIO HERRERA

*Chairman of the Accounting and Auditing Institute (ICAC)*



---

## ACTIVITY REPORT FOR 2017

---

### INTRODUCTION

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

#### 1. Functions and responsibilities

Article 1 of Audit Law 22/2015 (LAC), states that “Auditing will be understood as 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 that may have legal effects against third parties”.

The fundamental mission of the ICAC is 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 April 16, 2014.

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

- a) Authorising and registering auditors and audit firms in the Official Register of Auditors. This registration is a requirement for the performance of audits 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 this Law, as well as the supervision to ensure their compliance.
- c) Ongoing training of auditors.
- d) Regular monitoring of the evolution of the auditing services market regarding public interest entities.
- e) The disciplinary system.
- f) The inspections and investigation system.

In terms of accounting regulation, the responsibilities of the ICAC are listed in article 2 of its Bylaws approved by the aforementioned Royal Decree 302/1989:

1. The execution of technical work and the proposal of a General Accounting Plan adapted to the European Regulations and the Laws regulating these matters, as well as the approval of the adaptations of this Plan to the different sectors of the economic activity.
2. The establishment of developmental criteria for those items of the General Accounting Plan and the sectoral adaptations thereof that are deemed appropriate for the correct application of said standards that will be published in the Institute's Gazette.
3. The continuous improvement and updating of accounting plans, for which purpose it will propose any legislative or regulatory amendments required to bring them in line with the provisions issued by the European Union or in accordance with accounting advances.
4. The performance and promotion of research, studies, documentation, distribution and publication activities for the development and improvement of accounting standards.
5. The work with International Bodies in order to provide technical coordination and cooperation on accounting matters, particularly with EU bodies, as well as with the 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, Industry 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.

**Audit Committee**, is the body to which the matters related to the following matters must be submitted for consideration by the Chairman: Setting the standards that the professional competence exams required for access to the Official Register of Accounts (ROAC) must follow, as well as the calls for applications for such, approved and published by Ministerial Order; the 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 in relation 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 is considered of general interest; and any others deemed appropriate by the Office of the Chairman, 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 appointed by the Ministry of Economy, Industry and Competitiveness, with representatives of the Directorate General of Insurance and Pension Funds, the Ministry of Finance and Public Administration by means of the Office State's Inspector General,

the Accounts Court, corporations that represent auditors, the Bank of Spain, the National 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 to assess 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 the approval of accounting standards and their interpretations, issuing the corresponding non-binding report.

The Accounting Board shall be chaired by the Chairman of the ICAC, who will have a casting vote, and along with him by a representative from each 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.

Likewise, a representative of the Ministry of Finance and Public Administration designated by the department head shall sit on the Accounting Board and attend meetings with the right to be heard but not vote.

The Accounting Consultancy Committee is the advisory body of the Accounting Board. This Committee shall be composed of reputable accounting experts in the fields of economics and finance who represent both public administrations and the different sectors involved in the preparation, use and distribution of such 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 working 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 **Sub-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 April 16, 2014, 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 2017 are reported in the following sections.

## ACCOUNTING

The activities performed by the Sub-Directorate General of Accounting Technique and Standardisation in 2017 were as follows:

- a) Drafting of Royal Decree-law 18/2017, of November 24, 2017 by which the Commercial Code is modified, the consolidated text of Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of July 2, 2010, and Audit Law 22/2015, of July 20, 2015, regarding non-financial information and diversity.

With this standard, Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014, which amends Directive 2013/34/EU as regards the disclosure of non-financial information and information on diversity by some large companies and certain groups. The purpose of this standard is to identify risks to improve sustainability and increase the confidence of investors, consumers and society in general; therefore, it increases the disclosure of non-financial information, such as social and environmental factors.

Conversely, Directive 2014/95/EU extends the content required in the annual corporate governance report to be published by listed companies, in order to improve transparency by facilitating the understanding of the corporate organisation and business of the applicable company. The new obligation for these companies consists of disclosing the "diversity policies of responsibilities and viewpoints" that apply to their management body re-

garding issues such as age, sex, or professional training and experience. In the event that the company does not apply a diversity policy, there is no obligation to establish it, although the corporate governance statement must clearly explain the reason why it does not apply.

The disclosure of non-financial information or related to corporate social responsibility helps measure, oversee and manage the performance of companies and their impact on society. In this context, in order to improve the consistency and comparability of the disclosed non-financial information, some companies must prepare a non-financial information statement that contains information relating, at least, to environmental and social issues, as well as relating to personnel, respect for human rights and the fight against corruption and bribery. In accordance with Directive 2014/95/EU, this statement must include a description of the policies of results and risks linked to these issues and must be incorporated in the management report of the obliged company or, where applicable, in a corresponding separate report to the same financial year that includes the same content and meets the applicable requirements.

- b)** Drafting of the Project that amends the General Accounting Plan approved by Royal Decree 1514/2007, of November 16, 2007; the General Accounting Plan for Small and Medium Sized Enterprises approved by Royal Decree 1515/2007, of November 16, 2007; the Standards for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010, of September 17, 2010; and the Standards of Adaptation of the General Accounting Plan for non-profit entities approved by Royal Decree 1491/2011, of October 24, 2011.

The draft royal decree modifies the General Accounting Plan and its complementary standards (Standards for the formulation of the consolidated annual accounts and Standards of adaptation of the PGC to non-profit entities) to adapt these texts to the recent accounting regulations of the European Union, in the field of financial instruments and recognition of revenue from contracts with customers.

The General Accounting Plan for Small and Medium Enterprises is modified with a very limited scope consisting in introducing a technical improvement in the rule of presentation of capital increases.

The objectives of the standard can be summarised as follows:

- Align our accounting regulations with international accounting regulations regarding financial instruments and revenue from contracts with customers, in accordance with the criteria of simplification, proportionality and adequacy.
- Amend the PGC and its complementary provisions from the perspective of the relevance of the new international criteria for non-financial companies.
- Carry out an analysis of international criteria from a critical perspective so as not to include in the PGC and its complementary provisions, the standards that are not considered to introduce an improvement in the relevance and reliability of the financial information of the entities that apply the PGC.

- c)** Draft Resolution of the Accounting and Auditing Institute, which approves the criteria for the presentation of financial instruments and other accounting aspects related to the commercial regulation of corporate enterprises.

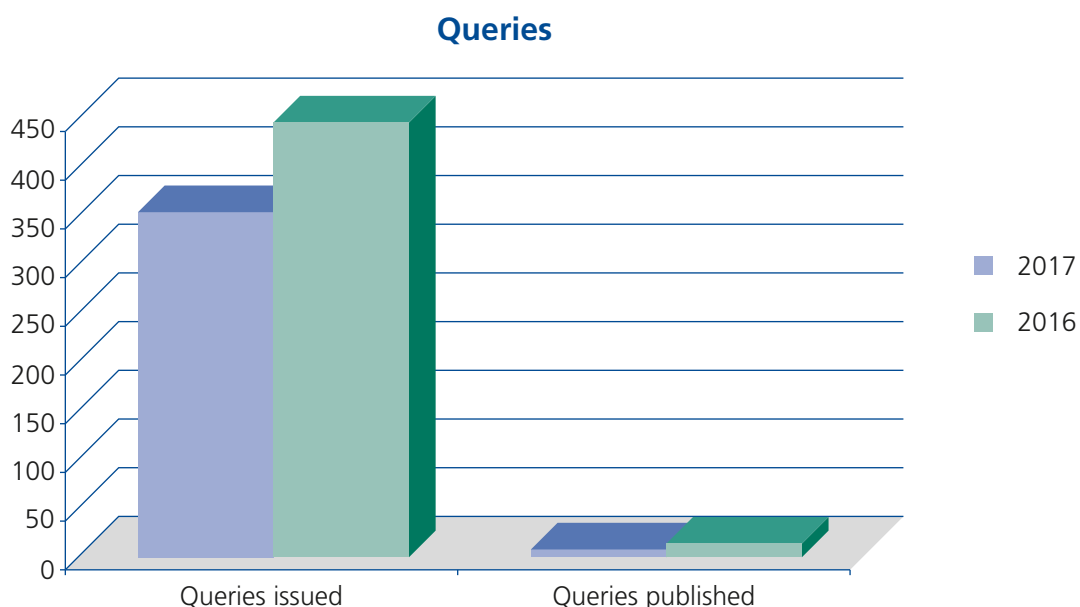
The resolution constitutes the regulatory development of criteria for the presentation of financial instruments such as net equity or liabilities, and the accounting implications of commercial regulations regarding social contributions, operations with own shares and

stakeholdings, application of profits, capital increase and reduction, and, in general, other accounting aspects related to the commercial regulations of corporate enterprises. The objectives of the standard can be summarised as follows:

- Achieve the necessary standardisation between international accounting regulations and our accounting regulations in terms of financial instruments.
- Improve the quality of financial information, particularly in the presentation of financial instruments such as liabilities or net equity.
- Clarify the classification of interests, dividends and gains and losses related thereto, and
- In short, complete and standardise the accounting criteria to be followed in the most common corporate transactions carried out by corporate enterprises.

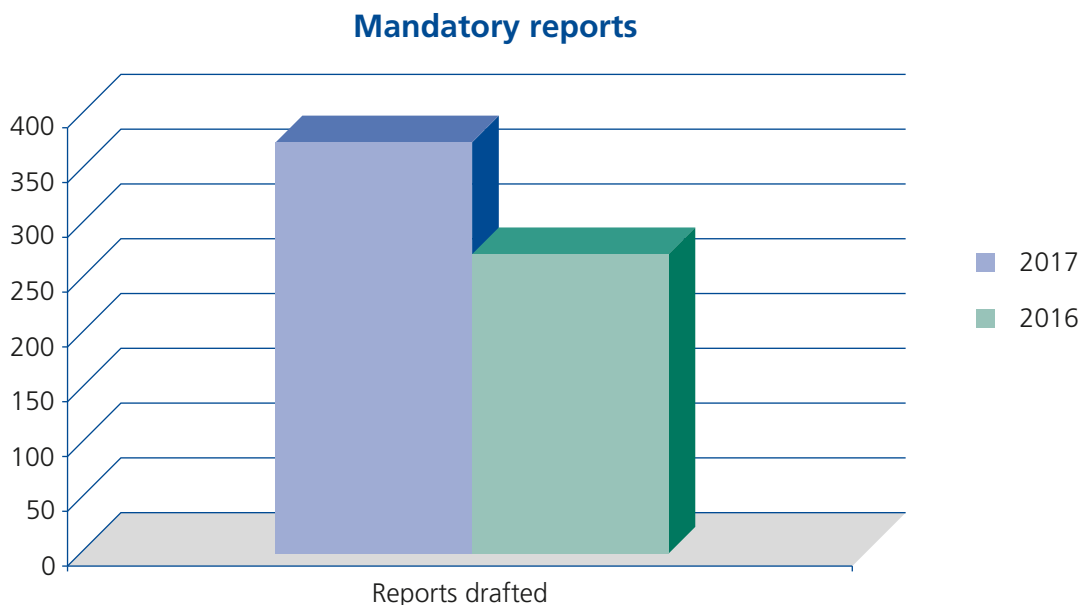
d) Responding to queries received on the accounting treatment of specific situations. Among all the queries that are resolved, those that are considered of general interest are selected for quarterly publication in this Institute’s Official Gazette.

QUERIES	2017	2016
Queries issued	354	446
Queries published	8	14



e) 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	2017	2016
Reports drafted	375	273



- f)** 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.
- g)** Technical coordination and cooperation with international organisations by participating in accounting working groups.

In 2017, it is necessary to highlight the commitment of the Institute to have an even more active presence in the EFRAG (European Financial Reporting Advisory Group), with the aim that our country contributes in a more direct way in the development and promotion of European reports in the field of financial and economic information, so that these valuations are adequately considered by the IASB (International Accounting Standards Board), since its inception, in the process of preparing international financial reporting standards. The main responsibility of EFRAG is precisely to translate these reports in a convincing, clear and consistent manner, after listening to all stakeholders, taking into account the specific circumstances of European origin, thus participating in the accounting standardisation process that leads to IASB, with the legitimacy of representing the European voice. The EFRAG, in addition to carrying out proactive research activities to promote the search for solutions at the international level on issues of concern Europe in accounting matters, also has the mission of providing advice to the Commission on the adoption of the standards issued by the IASB, including the assessment of whether they pursue the European public good, that is, assess not only technical aspects but also whether the new accounting standard has effects in terms of stability, economic development and competitiveness. The accounting convergence strategy towards these standards followed in Spain at the local level, based on a critical analysis of European regulations, allows tackling this task with solvency and contributes to enrich the debate on the new pronouncements that are adopted at the international level.

Specifically, the Institute's participation in the international arena in 2017 is as follows:

- Attendance and participation in meetings of the Accounting Regulation Committee (ARC), chaired by the European Commission.
- Attendance and participation in quarterly meetings of the EFRAG-CFSS with European accounting regulators, chaired by EFRAG.

- Attendance and participation in monthly meetings of the EFRAG Board, chaired by EFRAG.
  - Attendance and participation in meetings of the EFRAG General Assembly, chaired by EFRAG.
  - Attendance at meetings of the national accounting regulators (NSS), held in Taipei and London organised by IFASS (International Forum Of Accounting Standard Setters).
  - Attendance and participation in the global annual meeting (WSS) held by the IASB in London for accounting standard setters.
  - Collaboration with the IASB and EFRAG through reports and comment letters on the proposals for accounting standards and interpretations of the IASB and on EFRAG's comments thereto.
- h)** Collaboration with the Central Balance Sheet Data Office from the Bank of Spain on the review and, as appropriate, modification of forms for filling individual and consolidated annual accounts in the Mercantile Registers.
- i)** Collaboration and attendance at accounting meetings from the Mixed Commission of the National Sport Council for transformation of clubs into sports corporations.
- j)** 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.
- k)** 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.
- l)** 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.
- m)** Collaboration with the Directorate General of Taxation in relation to the response to queries made on the accounting treatment of specific situations.
- n)** 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.
- o)** Update and subsequent review of the text for dissemination and publication of the International Financial Reporting Standards adopted by the European Union.
- p)** 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)** Five meetings of the Accounting Advisory Committee were held in 2017 (three meetings in 2016).
- b)** Six meetings of the Accounting Board were held in 2017 (three meetings in 2016).

## AUDITING

### AUDIT REGULATIONS

Specific actions performed in 2017 by the Sub-Directorate General of Technical Audit Standards were the following:

#### Development of regulatory projects

1. Royal Decree 18/2017, of November 24, 2017 on non-financial information, which contains the modification of article 35 of Law 22/2015, of July 20, 2015.

In addition to the obligations incorporated to certain information to be included in the management report (or separate report) or in the annual corporate governance report in compliance with the aforementioned Directive 2014/95/EU (cited in the section on accounting regulations), the aforementioned EU regulation provides that auditors and audit firms should only verify if the non-financial information statement has been provided.

In this sense, it was necessary to modify the wording of article 35 of Audit Law 22/2015, of July 20, 2015, on the audit report of annual accounts of public interest entities, for the purposes of that law, to include and specify the performance of the auditors, both in relation to the non-financial information statement, and in relation to the information on diversity included in the annual corporate governance report of listed companies.

Hence, it is clarified that in both cases, in accordance with the provisions of Directive 2014/95/EU, the performance of the auditor will be only limited to the verification that the aforementioned information has been provided in the corresponding reports.

2. During 2017, the preparation of the Draft Regulation of the Audit Law has begun, by virtue of the authorisation contained in the eighth final Provision of said law.

The purpose of this Regulation is to develop the Audit Law to complete the necessary amendments to the legislation regulating the audit activity, which was adapted to Directive 2014/56/EU of the European Parliament and of the Council, of April 16, 2014 amending Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, and which also incorporated the options contained in Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The objectives with this regulatory development are intended, on one hand, to comply with the legal authorisation contained in the eighth final provision of the Audit Law in order to regulate the necessary provisions for the development of said Law, and, on the other hand, to specify the specific scope and meaning of certain issues as well as to improve clarity by means of drafting improvements, as well as including certain technical improvements recommended by experts.

This is intended to achieve greater legal certainty in the application of the legislation governing the audit activity, making possible the full application and integration of the aforementioned European legislation.

The resulting draft was sent, after consideration of the Audit Committee of this Institute, to the Ministry of Economy, Industry and Competitiveness.

## Other actions

- a) Preparation of reports on provisions that affect or may affect the scope of the audit activity.

In the 2017 financial year, the number of reports on regulatory proposals or projects amounted to 40.

- b) Study and preparation of the reply to queries submitted on the interpretation and application of audit legislation. 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	2017	2016
Queries issued	296	314
Queries published	10	5

- c) Review of the *Disclosures* project that contains modifications that affect the translations of several International Standards on Auditing issued by the IAASB for the purposes of its subsequent adaptation by Resolution of the ICAC

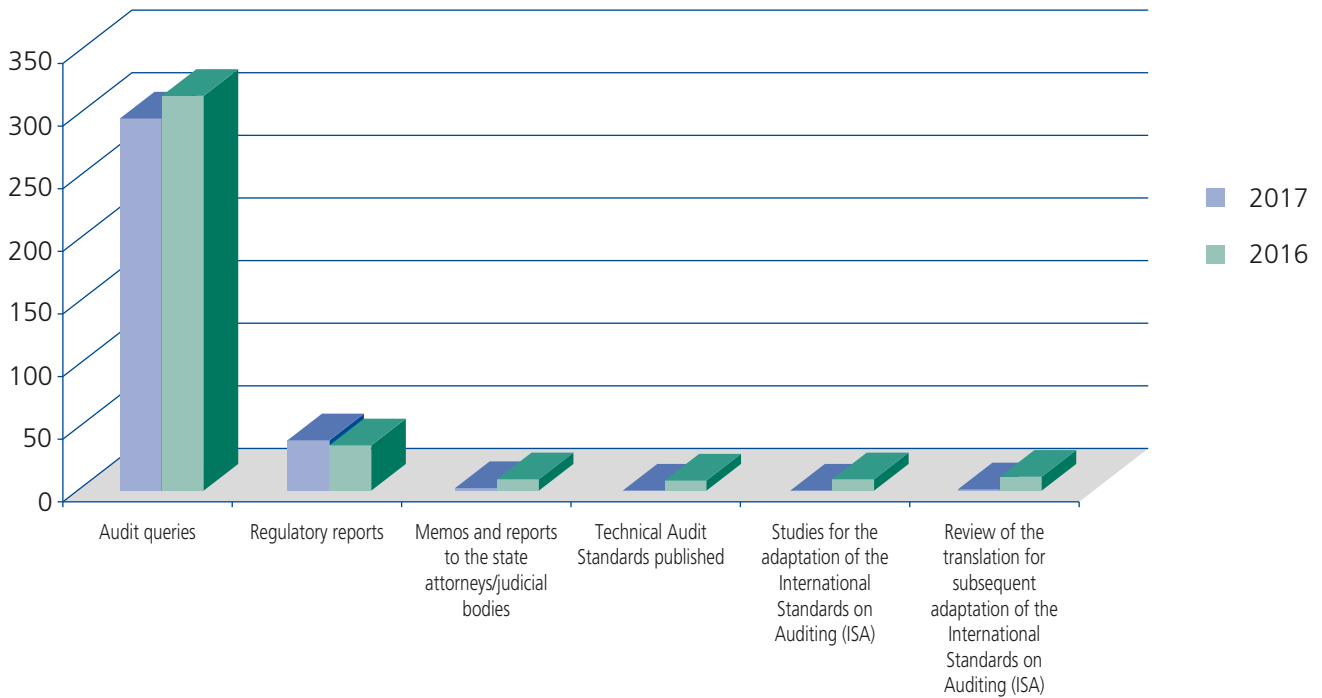
Similarly, the draft projects published by the IAASB and IESBA were debated and submitted to consultation, in order to issue the corresponding report to be sent, either individually by the ICAC or jointly with other competent authorities of other Member States of the European Union (CEAOB, International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

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

While exercising the powers conferred, four meetings of the Audit Committee were held in 2017 (seven meetings in 2017), which addressed the matters required by the applicable regulations.

REGULATORY ACTIONS REGARDING AUDITING	2017	2016
Audit queries	296	314
Regulatory reports	40	36
Memos and reports to the state attorneys/judicial bodies	2	9
Technical Audit Standards published	0	8
Studies for the adaptation of the International Standards on Auditing (ISA)	0	9
Review of the translation for possible subsequent adaptation of the ISA – Review of the Disclosures project that contains small modifications to numerous standards	1	11

### Regulatory actions regarding audits



## DISCIPLINARY ACTIVITIES

The following specific actions were performed in 2017 by the Sub-Directorate General of Technical Audit Standards:

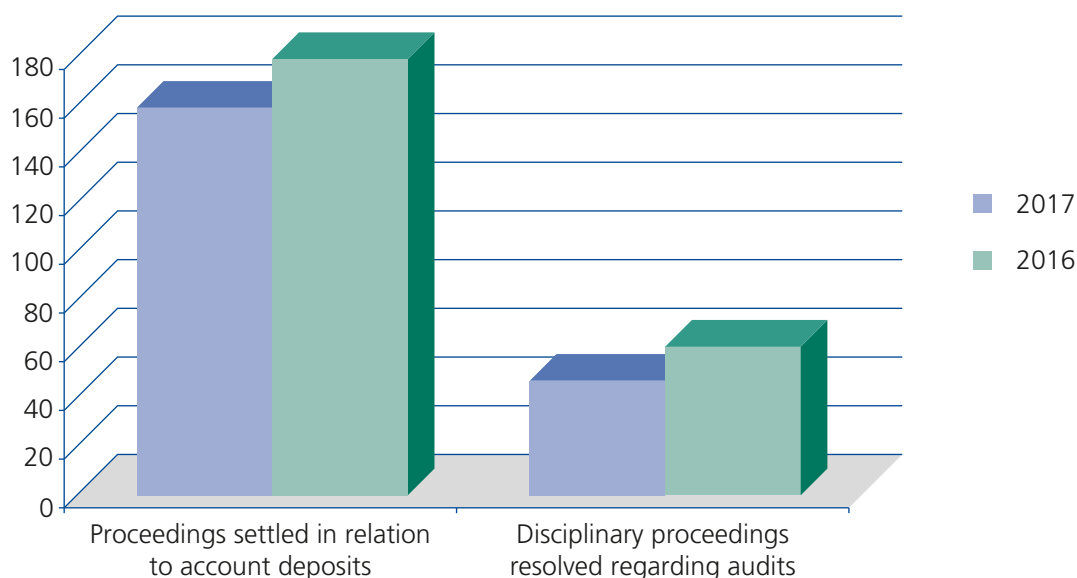
- a) Disciplinary administrative proceedings due to audit breaches.
- b) Disciplinary administrative proceedings due to breaches of the obligation to present annual accounts for fling at the Commercial Registry were processed, including the participation of 3 people from this Sub-directorate, who assisted 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 fling of accounts amounted to 47 and 159 respectively, according to the following details:

DISCIPLINARY ACTIONS	2017	2016
Proceedings settled in relation to account deposits	159	179
Disciplinary proceedings resolved regarding audits	47	61



## Disciplinary actions



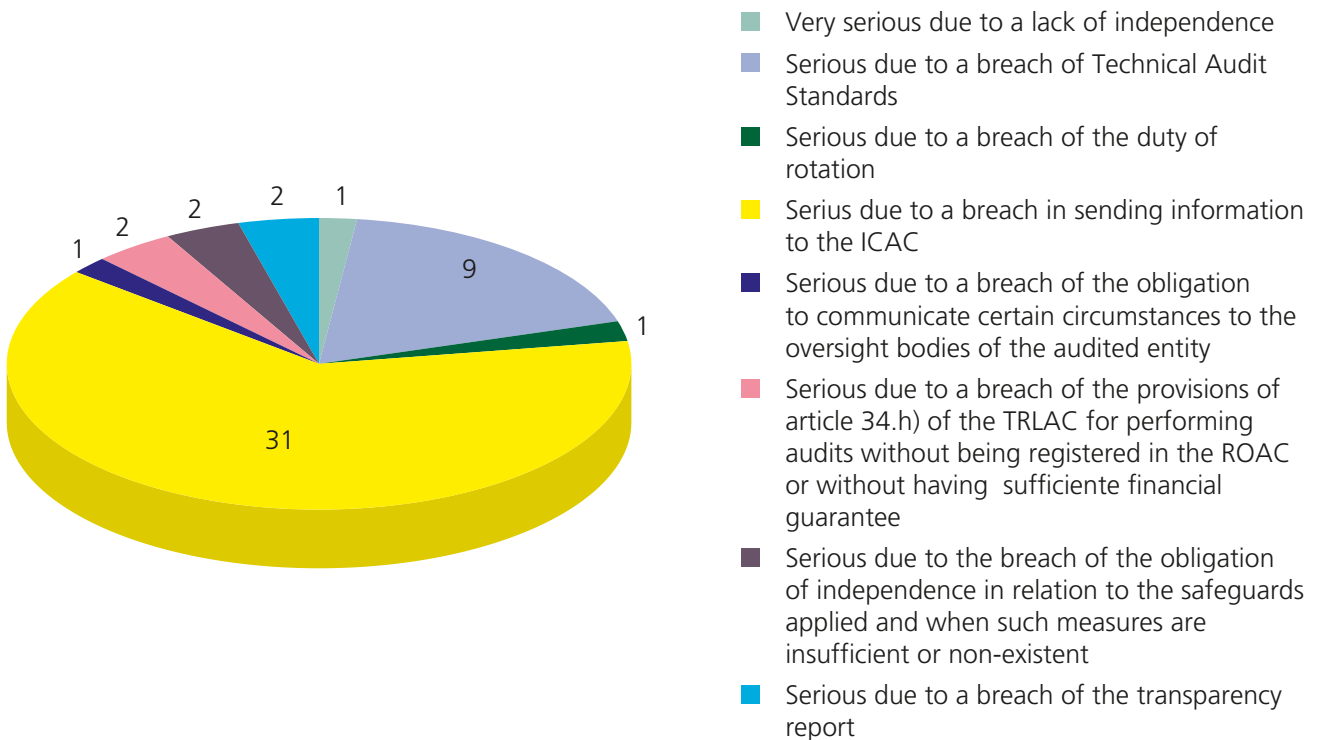
The proceedings that were resolved regarding audits were declared to be breaches of audit regulations, according to the following details:

Disciplinary proceedings settled in relation to auditing	N° of cases filed 2017	N° of cases filed 2016
Very serious due to a lack of independence	1	1
Very serious due to refusal or resistance in the exercise of their competences	—	4
Very serious due to the breach of the duty of secrecy	—	1
Very serious due to the breach of duty of conservation and safekeeping	—	1
Serious due to a lack of independence	1	—
Serious due to a breach of Technical Audit Standards	9	16
Serious due to a breach of the duty of rotation	1	—
Serious due to a breach in sending information to the ICAC	31	30
Serious due to a breach of the obligation to communicate certain circumstances to the oversight bodies of the audited entity	1	—
Serious due to a breach of the provisions of article 34.h) of the TRLAC for performing audits without being registered in the ROAC or without having sufficient financial guarantee	2	1

Disciplinary proceedings settled in relation to auditing	N° of cases filed 2017	N° of cases filed 2016
Serious due to the breach of the obligation of independence in relation to the safeguards applied and when such measures are insufficient or non-existent	2	3
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
<b>TOTAL</b>	<b>49 *</b>	<b>61</b>

\* Due to the existence of proceedings that include more than one breach, the total shown in this table does not coincide with the number of resolved proceedings.

### No. of cases filed - year 2017



It is worth highlighting the number of serious breaches (48) against very serious breaches (1). The very serious infringement has been declared in connection with the provision of services related to the accounting of the audited entity.

Among the serious breaches, those referring to non-compliance with the auditing standards that could significantly affect the result of the audit and the report issued (9), those referring to the breach regarding the submission of information to the ICAC (26), and related to the system of threats and safeguard measures applied to preserve the duty of independence (2).

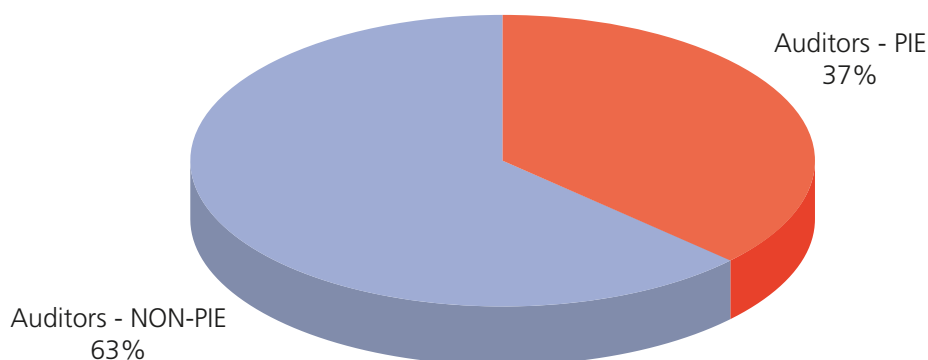
In relation to the breach of the auditing standards that could affect the result of the audits and the report issued, mentioned in articles 34.b) of the TRLAC (then in force at the date of the facts, contained in the current Article 73. b) of the LAC), of the 9 breaches, 2 corresponding to individual auditors, and 7 to audit firms, of which 2 of them were for the breach of the International Standards on Auditing adapted for their application in Spain by Resolution of the ICAC of October 15, 2013, by which the new Technical Audit Standards are published, a result of the adaptation of the International Standards on Auditing (ISA) for its application in Spain, being the breaches in all infringements regarding the standards related to the collection of evidence and to standards relating to the issuance of the audit report.

In relation to the breach of the duty to submit information to the ICAC, specified in article 34.d) of the TRLAC in force at the time of the facts, and contained in Article 73.d) of the LAC), twenty-six cases were resolved, the reason for the breach being the lack of submission of annual information form 02 or 03, of which twenty-two corresponded to individual auditors and four to audit firms, and, 5 cases for the lack of communication of substantial information to the ICAC, by not having declared the persons or entities that belong to the same network to which the auditor or audit firm belongs. In these cases, 10 of the auditors or audit firms have acknowledged their responsibility and/or have expressed their willingness to make the payment before the Resolution is issued, having issued the corresponding resolutions applying in the proposed disciplinary sanctions, the discounts contemplated in Article 85 of Law 39/2015 of October 1, 2015, on Common Administrative Procedure of Public Administrations. Thus, in 8 of them, a discount of 40% has been applied for having recognised the responsibility and paid the fine prior to the issuance of the resolution and in 2 of them a discount of 20% has been applied since only the responsibility for the infringing party was recognised. Regarding the sanctions imposed for this breach of lack of information submission to the ICAC, it should be noted that, at the express request of eight individual auditors, the fine that would have corresponded to the 6-month temporary de-registration has been replaced.

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

	Year 2017	Year 2016
PIE Auditors	6	17
NON-PIE Auditors	10	30

**Audits corresponding to PIE in the year 2017**



In addition to the foregoing, it should be pointed out that during 2017 the following appeal reports were issued, lodged in accordance with the provisions of Article 47 of the Audit Law (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 October 1, 2015, on the Common Administrative Procedure of Public Administrations (previously Article 107 of Law 30/1992, of November 26, 1992, on the Legal Regime of Public Administrations and the Common Administrative Procedure), extraordinary appeal for review filed in accordance with Article 125 of the aforementioned Law 39/2015 and official review in accordance with the provisions of Article 109 of said Law.

<b>Appeal Reports</b>	<b>2017</b>
Appeal Reports from audit cases	30
Reports on extraordinary review appeals	1
Appeal Reports from account deposit cases	10
Appeals filed against the voluntary notification of the debt arising from the ICAC Resolution	2
Official Reviews of the resolution of the ICAC	2

Furthermore, a total of 22 disciplinary proceedings have been referred to different courts, with the corresponding information and support.

This financial year, the staff assigned to the Sub-Directorate General of Technical Audit Standards consisted of 7 members. This Sub-Directorate, assist the Office of the Chairman in preparing the acts under his responsibility set out in said proceedings and carries out as well the rest of the regulatory and consultancy tasks set out relating to audits.

## AUDITOR TRAINING

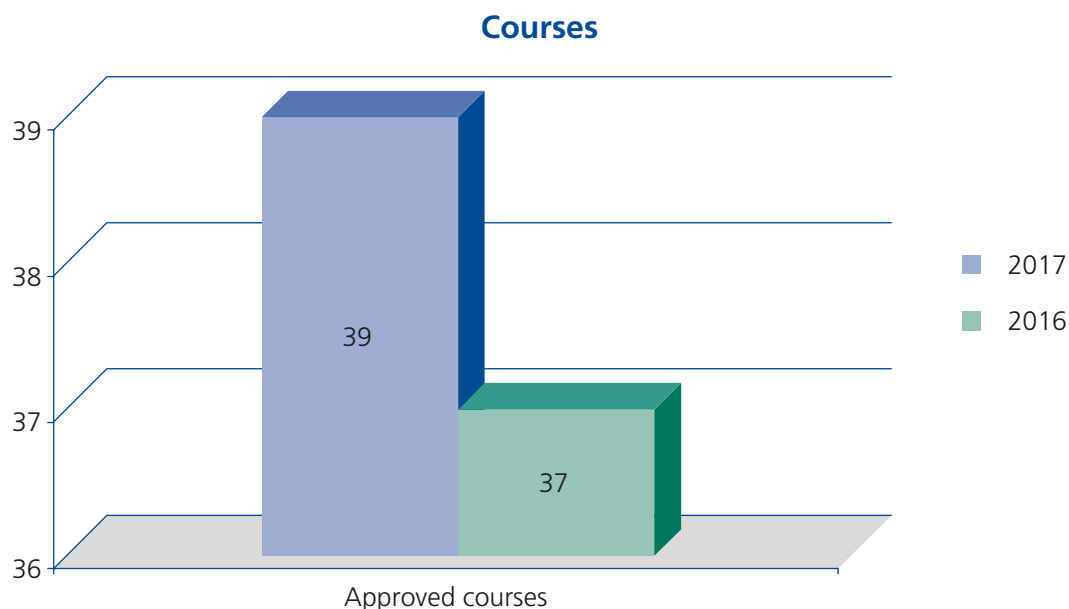
In accordance with audit activity legislation, the Sub-Directorate General of Technical Audit Standards is responsible for exercising the powers attributed to the ICAC pertaining to coordination and promotion of the selection, training and improvement of auditors.

### 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 the examination to access the Official Register of Auditors.

During 2017, 39 files for the official approval of theoretical educational programmes for access to the Official Register of Auditors were resolved, with the following details:

- 28 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:

- 10 partial generic exemptions for bachelor's degrees at the request of a university.
- 50 specific exemptions for official degrees upon individual request.

## Continuing Education

In accordance with articles 8.7 of Audit Law 22/2015, of July 20, 2015, and 40 to 42 of the implementing Regulation of the consolidated text of the Audit Law, approved by Royal Decree 1517/2011, of October 31, 2011, the auditors must follow and report on ongoing training activities as well as justify these as from October 1, 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 October 29, 2012, thereby developing different aspects related to the ongoing training obligation of auditors registered in the Official Register of Auditors, whether they are exercising their profession or not and who provide services as employees.

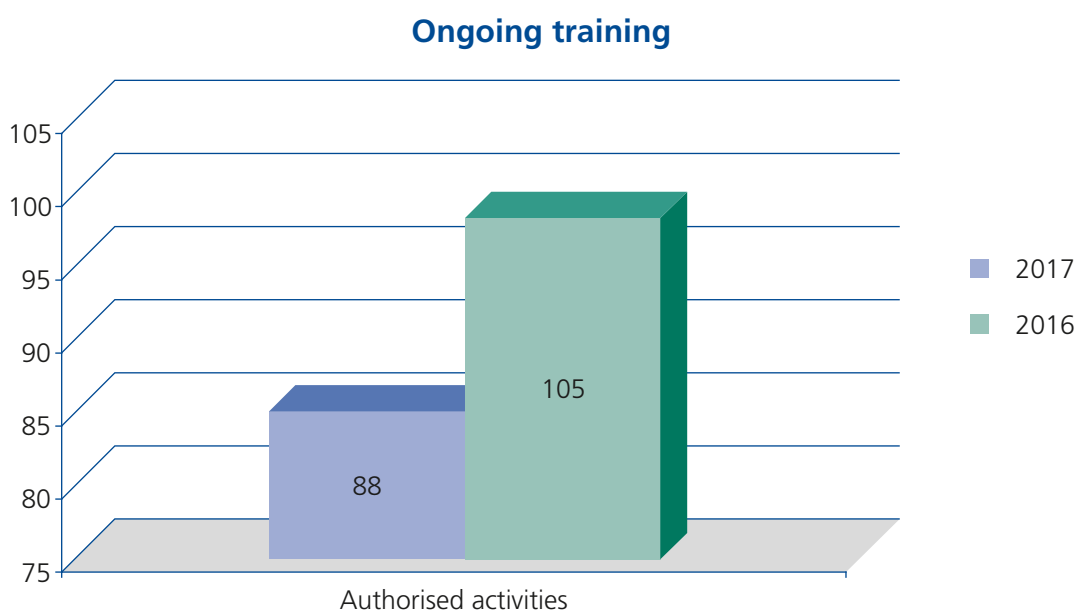
In the exercise of such authority, the ICAC is responsible for recognising the centres that are qualified to give ongoing training activities, as well as the determined activities to be conducted by certain entities or centres, in accordance with the conditions included in the aforementioned Resolution.

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:

- 88 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 partial exemption requests have been processed and resolved of the obligation to take ongoing training courses for the reporting period comprised between October 1, 2014 and September 30, 2016.



## OVERSIGHT OF THE AUDIT ACTIVITY: INSPECTIONS AND INVESTIGATIONS

### Introduction

Article 46 of the Law on Auditing (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.

Both the LAC and the EU regulations require publishing a report of activities and the general results and conclusions regarding the inspections system of quality control.

During 2017, the Sub-directorate General of Inspections and Investigations had 18 civil servants, including the Head of Inspections and Investigations 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 works 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. The following frequency is required by Article 26 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, on the specific requirements for the legal audit of public interest entities and Article 54 of the LAC.

FREQUENCY	REQUIREMENTS		
At last every 3 years	PIE	Large companies	Assets >20.000.000 € Revenue >40.000.000 € Employees >250
At last every 6 years	PIE	Medium-sized companies	Assets <= 20.000.000 € Revenue <= 40.000.000 € Employees <= 250
	PIE	Small companies	Assets <= 4.000.000 € Revenue <= 8.000.000 € Employees <= 50
	Non-PIE	Large companies	Assets >20.000.000 € Revenue >40.000.000 € Employees >250
	Non-PIE	Medium-sized companies	Assets <= 20.000.000 € Revenue <= 40.000.000 € Employees <= 250
No minimum frequency	Non-PIE	Small companies (mandatory audit)	2.850.000 € < Assets <= 4.000.000 € 5.700.000 € < Revenue <= 8.000.000 € Employees <= 50
	Non-PIE	Small companies (voluntary audit)	Assets <= 2.850.000 € Revenue <= 5.700.000 € Employees <= 50

### Audit control activities carried out in financial year 2017

The auditors that submitted a statement regarding, inter alia, the audit work performed during the period from 01/10/2015 to 30/09/2016, amounted to 2,247 auditors and audit firms (1,218 firms and 1,029 auditors).

Audit control activities were directly performed by the ICAC itself.

Regarding the inspection activity, and under the direction and supervision of ICAC, third parties have assisted who were contracted with specific expertise in the areas of credit institutions valuations and information technology systems, in accordance with Article 55 of the LAC

In 2017, control actions focused on quality control inspections and investigations (including specific actions on certain audit aspects), amounting to a total of 105 actions, with the following details:

<b>Actions conducted directly by the ICAC</b>	<b>2017</b>
Inspections	2 <sup>1</sup>
Investigations	103
<b>TOTAL</b>	<b>105</b>

#### a) Inspection actions

In 2017, two wide-ranging inspections were finalised<sup>2</sup> in relation to two large audit firms whose financial years ended in 2015 and 2016, which audited Public Interest Entities (PIE)<sup>3</sup>, and initiated, at the end of the 2017 financial year, other two inspections by auditors who audit PIE. One of them is a large audit firm and the other is a medium-size audit firm.

The scope consisted of the inspection of the internal control procedures corresponding to the six elements of a system of quality control of the two aforementioned audit firms, and also of the inspection of the working papers of certain areas relating to 19 audit engagements from 13 entities, 10 of which were PIE.

Furthermore, in the framework of inspections, the Sub-directorate General of Inspections and investigations took part in three of the Colleges of Competent Authorities established for each of the four biggest European networks of audit firms.

The results of the two inspections completed in 2017 are summarised below, detailing the main issues regarding the audit firm policies and procedures, as well as the review of audit files, in which significant findings were identified.

<sup>1</sup> In the 2016 Report, 196 inspection actions were reported, including an inspection of an equivalent audit firm, for weighting reasons, to 76 actions.

<sup>2</sup> The inspections end with the issuance of the final inspection report, an issue that is made after evaluating the claims of the auditors and of audit firms in the provisional report, previously issued, in accordance with the provisions of article 76 of Royal Decree 1517/2011, of October 31, 2011 which approves the Regulation that develops the consolidated text of the Audit Law, approved by Royal Legislative Decree 1/2011, of July 1, 2011.

<sup>3</sup> These audit firms were also subject to inspection by the US Public Company Accounting Oversight Board (PCAOB), in accordance with the Sarbanes-Oxley Act of 2002, Audit Law 22/2015 and the cooperation agreement signed between the PCAOB and ICAC on July 16, 2012 and updated on November 24, 2016, for the oversight of audit firms subject to the jurisdiction of both regulators.



### a.1) Quality control policies and procedures

The inspection has identified significant findings<sup>4</sup> (hereinafter, findings) in elements of the system of quality control with the following details:

Elements of the System of Quality Control	No. of inspected companies with findings	No. of total findings
Leadership responsibilities for quality in the audit firm (i)	1	2
Acceptance and continuance of audit engagements and clients (ii)	2	6
Applicable ethical requirements (iii)	1	4
Human resources (iv)	2	7
Conducting audit engagements (v)	2	7
Monitoring (vi)	2	8

ANNEX 2 provides an overview of the main findings identified in the two inspections. The main aspects of these findings are highlighted below.

(i) The leadership responsibilities for quality of the audit firm include the assignment of the responsibilities of the operation of the system of quality control with the criteria of experience, capacity and authority.

The responsible parties include the person in charge of monitoring the system of quality control, whose responsibilities include the on-going evaluation of quality control policies and procedures established by the audit firm, including the cyclical inspection of audit engagements, with the purpose of evaluating if, in their design, they are adequate and relevant, as well as their operational effectiveness, configuring themselves as a further control of said policies and procedures.

In one of the two inspected audit firms, although the audit firm has appointed a responsible person for the monitoring, nevertheless it is only a formal appointment because neither the audit firm has defined the functions of the responsible party nor does it appear that it participates in the monitoring, the person in charge of the professional practice who participates in the implementation of policies and procedures of several other elements of the system of quality control, participates in said subsequent control, which implies a lack of segregation of functions to carry

<sup>4</sup> In relation to the policies and procedures of audit firms, the existence of a significant finding is considered, when the implementation of the policies, procedures, tools or internal controls established by the audit firm is not appropriate to ensure reasonable compliance with the applicable requirements contained in the regulations governing the audit activity, in accordance with the provisions of the Internal Quality Control Standard for the auditors and audit firms published by the ICAC Resolution of October 26, 2011.

The findings identified by the ICAC inspection do not exclude the possibility that there could be others not identified by the Inspection.

out the monitoring of the system that may involve a conflict of interest that affects the audit objectivity and, therefore, its effectiveness.

(ii) The acceptance and continuance process of engagements and audit clients, is intended to implement policies and procedures to obtain reasonable assurance that only relations with audit clients and audit engagements are initiated or continued for which the audit firm:

- Has the competence and capacity to carry out the engagement, including the resources and the time necessary for it (absence of professional risk);
- Can meet the applicable ethical requirements, including independence requirements (absence of ethical and independence risks);
- Considers the integrity of the client and does not have information that leads it to conclude that the client lacks integrity (absence of customer risk).

Hence, it is a preventive control that must operate effectively before signing the audit engagement letter and the start of the audit activity.

The main finding identified in one of the two inspected audit firms refer to the evaluation of the following aspects:

- **Independence risk-** The evaluation of the capacity to comply with the independence requirements is not established.
- **Professional risk-** Absence of the necessary flow of information with the human resources department to verify the availability of personnel with the necessary time to form audit teams and the availability of quality control reviewers with the objectivity, technical qualification and time required to properly perform the duties of reviewer, as well as the rest of the assigned tasks.

Likewise, in the two inspected audit firms, there is a lack of preventive controls for the assignment of quality control reviewers to ensure compliance with the risk criteria established in the policies of said audit firms for the performance of those reviews.

(iii) Compliance with the requirements related to the element "ethics" of the system of quality control, including those of independence, is intended to implement policies and procedures to obtain reasonable assurance that both the audit firm and its personnel, as well as the rest of the individuals and entities to which the aforementioned requirements apply, maintain their independence, by identifying and evaluating independence threats in a way that is adequately safeguarded or, otherwise, audit engagements are not accepted or the audit report is not issued.

Regarding independence policies and procedures, findings have been identified in one of the two inspected audit firms, highlighting the following:

- The methodology of the audit firm does not require the documentation of the evaluation of the independence threat, derived from situations and services that may pose a threat to such independence, but only requires the documentation of said valuation when it is found that there is an independence threat, having identified a case of providing an valuation service with significant effect on the financial statements of a PIE and a high degree of subjectivity in the valuation, for which there is no assessment of said service in working papers, in accordance with the applicable independence requirements or the reasons or procedures to justify the conclusion that said services do not involve an incompatibility or a self-assessment risk when conducting the audit.

- The audit firm follows the code of ethics issued by IESBA<sup>5</sup>, without its independence policies being fully adapted to the independence requirements in force in Spain, which mainly affects subjects linked to the staff of the audit firm and the audited entity, as well as situations and services that may render the audit firm incompatible for carrying out audit engagement or posing a threat to its independence.
- In a significant percentage of the sample of non-auditing services provided to audited entities or linked to those audited entities (44%), the acceptance or continuance process of said services occurred after the signing of the letters commissioning said services, therefore, said process does not reasonably ensure that such proposals for non-auditing services are evaluated by auditors appointed for signing audit reports in accordance with independence requirements, before the start of their service provision.

(iv) The *human resources* policies and procedures are intended to provide reasonable assurance that audit firms have sufficient personnel with the competence, capacity and commitment to the ethical principles required to perform the audit engagements in accordance with auditing regulations.

The main deficiency in this area is the lack of clarity, revealed in the two inspected audit firms, in the following aspects:

- The measurement of quality indicators for the selected sample of personnel, including the auditors who signed the audit reports, reviewed by the ICAC, which affect the result of the performance evaluation in the performance of audit engagements; and
- The influence that said performance evaluation has on compensations.

In the two inspections of the ICAC, the audit firms have not evidenced that the policies and procedures for performance evaluation and compensation prioritise quality in the execution of audit engagements, so that the business strategy or commercial considerations of the audit firms are subject to the primary requirement to achieve the quality required by the regulations governing the audit activity, in all the audit engagements that they conduct.

The workload of the staff of the audit firms involved in the performance of audit engagements is, *inter alia*, one of the key items that affects the quality with which audit works are carried out. In this regard, one of the two inspected audit firms has revealed, in addition to findings related to the lack of adequate policies and procedures implemented to estimate the hours required for the different categories of personnel assigned to the audit teams for the performance of the audit engagements, the lack of adequate policies and procedures implemented for the assignment of the workload of said staff, as well as the lack of monitoring of said workload, so that they are effective for ensure the quality of the audit work.

In this regard, the importance of the findings lies in the fact that the performance assessment system and remuneration of the staff that participates in the performance of audit engagement, together with the availability of sufficient and adequate resources, including the time necessary to perform auditing procedures required by the methodology of the audit firm for the application of the regulations governing the audit activity and, in particular, by the ISAs in the performance of the audit engagements, constitute key pieces of the quality culture whose promotion is part of the leadership responsibilities for quality in audit firms.

---

<sup>5</sup> International Ethics Standards Board for Accountants.

Likewise, in one of the two inspected audit firms, a lack of specific training for the functions carried out by the quality control reviewers has been observed. Taking into account the findings indicated below, related to this preventive system of quality control, the development of specific training programs in relation to these functions is considered a priority, as well as a major monitoring cony audit firms of the effectiveness with which quality control reviews are operating.

(v) The policies and procedures for *performing engagements* must provide reasonable assurance that the audit engagements carried out by audit firms are carried out in accordance with the regulations governing the audit activity. This element of the system of quality control includes different aspects related to the promotion of consistency in the quality with which engagements are performed, the oversight and review responsibilities in the audit teams, the execution of the necessary queries and the implementation of the resulting findings, the review of quality control of PIE engagements, as well as those fulfilling risk criteria, audit documentation, confidentiality, safe custody, integrity, accessibility and recovery of the documentation of audit engagements, as well as the preservation of said documentation.

Findings have been found in two important preventive controls:

- Review in the audit team, before the issuance of the audit report; and
- The review of quality control by qualified and objective persons, of the significant opinions that the audit team makes while conducting audits.

The policies and procedures relating to the review responsibilities are established on the work done by less experienced members of the audit team, as long as it is reviewed by more experienced team members, with the auditor appointed by the audit firm for the signature of the audit report, responsible for ensuring that such reviews are carried out in accordance with the policies and procedures of the audit firm, and that the auditor must, on or before the date of the report, be satisfied that they have gathered adequate and sufficient evidence to support the findings and the issuance of the audit report, through a review of the audit documentation and discussions with the audit engagement team.

The review work consists of considering whether the work has been carried out in accordance with the regulations governing the audit activity, if significant issues have been raised for evaluation, if the appropriate queries have been made and the resulting findings have been documented and implemented, if it is necessary to review the work done, if the audit supports the findings, if sufficient and adequate evidence has been gathered to support the report and if the objectives of the audit engagement have been achieved.

The timely review by the auditor appointed by the audit firm, for the signature of the audit report, at the appropriate stages of carrying out the audit work allows for the following issues to be resolved in a timely and appropriate manner, before issuing the audit report:

- Critical judgment areas, especially complex or controversial issues identified during the conduct of the audit;
- Significant risks; and
- Other areas that the appointed auditor deems important.

In the following section, the main findings are exposed, in the two inspected audit firms, with respect to the performance of 15 out of 19 audit engagements selected by the ICAC inspection for the review of the application of the methodology of the audit firms, that have not been avoided by the preventive control review in the audit team.

Conversely, the quality control review is a preventive control, prior to the issuance of the audit report, conducted by personnel that are not part of the audit team, in charge of the engagement subject to this review, with the objectivity and technical qualifications necessary to carry out the audit review, including the required experience and authority. This review is required for PIE audit engagements, as well as for those that fulfil risk criteria. In the performance of this control, the quality control reviewer includes in its review:

- Discussion with the appointed auditor to sign the audit report, of any significant issues;
- The review of the financial statements subject to the audit engagement and the draft audit report;
- The review of the selected audit engagement documentation related to the significant judgments made by the audit team and its findings; and
- The assessment of the findings for the issuance of the audit report and the consideration of the adequacy of the draft report. Furthermore, when dealing with a PIE audit engagement, the quality control review includes consideration of the following:
  - The evaluation carried out by the audit team regarding the independence of the audit firm with respect to said engagement;
  - If the appropriate queries have been conducted on matters in which there are differences of opinion or other complex or controversial issues, and the findings in said query;
  - If the documentation selected for review reflects the work done in relation to significant judgments and if it supports any findings.

The following section describes the main findings, in the two inspected audit firms, with respect to the performance of a part of the audit engagements selected by the ICAC inspection for the review of the methodology application of the audit firms, which have not been avoided by the preventive control of the review, which demonstrates the ineffectiveness of such control in the critical areas of a large part of the audit engagements inspected by the ICAC that had a quality control review.

Moreover, it has been noted that in 50% of the documentation of the quality control reviews selected by the ICAC, there are findings in not identifying the reviewed issues, the discussions with the audit teams or the criteria and judgments of the quality control reviewer to conclude on the sufficiency and adequacy of the audit engagements. On the other hand, the audit firms have not justified the sufficiency of hours used by the quality control reviewer of the audit engagement, considering the total hours used in the reviewed audits.

Regarding the objectivity of the reviewers, cross-checks have been identified among auditors appointed to sign different audit engagements, without there being any measures to preserve the objectivity of the reviews in said circumstances.

(vi) The *monitoring* of the system of quality control is a control after the implementation of other policies and procedures of the audit firm, and the issuance of the audit reports, whose objective is to provide reasonable security to the audit firm, if its quality control policies and procedures are relevant, adequate and operate effectively.

Two of the audit engagements selected by the ICAC inspection for the review of the methodology application of the audit firms, corresponding to two PIEs, in which findings have been found regarding adequate and sufficient evidence in major risk areas, they were also subject to a monitoring review by the two inspected audit firms, and the monitoring review did not identify any

findings, which implies the ineffectiveness of said control in those areas of the two audit engagements inspected by the ICAC that, in turn, were followed up by the audit firm.

Regarding the monitoring planning process, in the two inspected firms, a lack of documentary evidence regarding the selection process of audit engagements and, in particular, the application of adequate risk criteria for said selection, has been identified.

Similarly, in one of the inspected audit firms, the lack of procedures to preserve the objectivity of the person responsible for monitoring has been revealed, taking into account that the responsible person carries out audit tasks.

Regarding the monitoring of the audit policies and procedures, in one of the inspected audit firms, a lack of monitoring of the applicable ethical requirements, including independence, is observed. Likewise, the selection criteria of the samples of the reviewed policies and procedures and the identification of the selected samples have not been found.

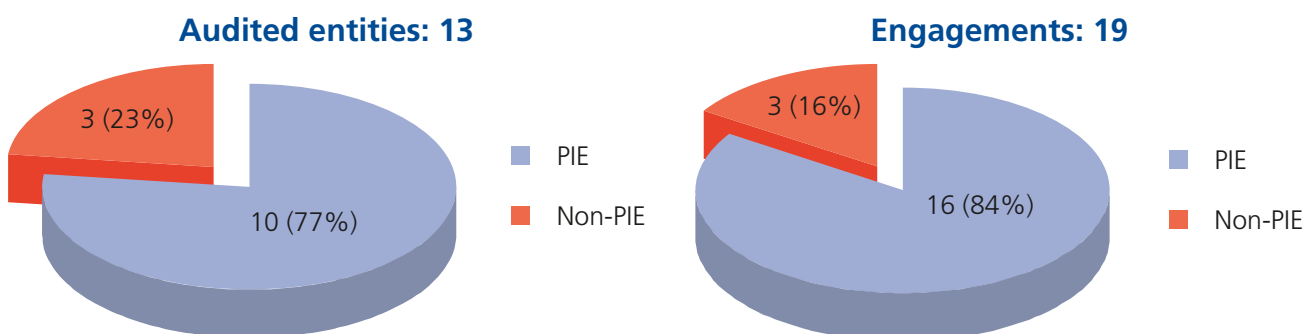
Finally, in one of the inspected audit firms, the documentation of the monitoring review of audit engagements and policies and procedures does not identify the specific issues, nor the criteria and judgments taken into account to support the finding that the reviewed policies and procedures are effective and that the work carried out in the reviewed audit engagements was in accordance with the regulations governing the audit activity and, in particular, with ISA.

### Evolution related to previous years

By comparing the result of the inspection completed in 2017 with the inspections completed in previous years, with regard to the policies and procedures for quality control, a similar level to 2016 is derived from findings in the signature procedures, this points to a possible consolidation of the slight decrease in findings detected in 2016 compared to previous years, highlighting that in 2017 no significant findings were identified in relation to the independence item in one of the inspected audit firms. However, there are still findings in relevant processes of the different elements of the system of quality control, in the two audit firms inspected in 2017 regarding such parts, human resources, performance of audit engagements and monitoring ; and, for one of the inspected firms, in terms of quality leadership of the audit firm, as well as in applicable ethical requirements and, particularly, in independence control policies and procedures.

#### **a.2) Methodology for the performance of audits (engagements)**

Regarding the inspection, 19 audit engagements corresponding to 13 entities were included, according to the following details:



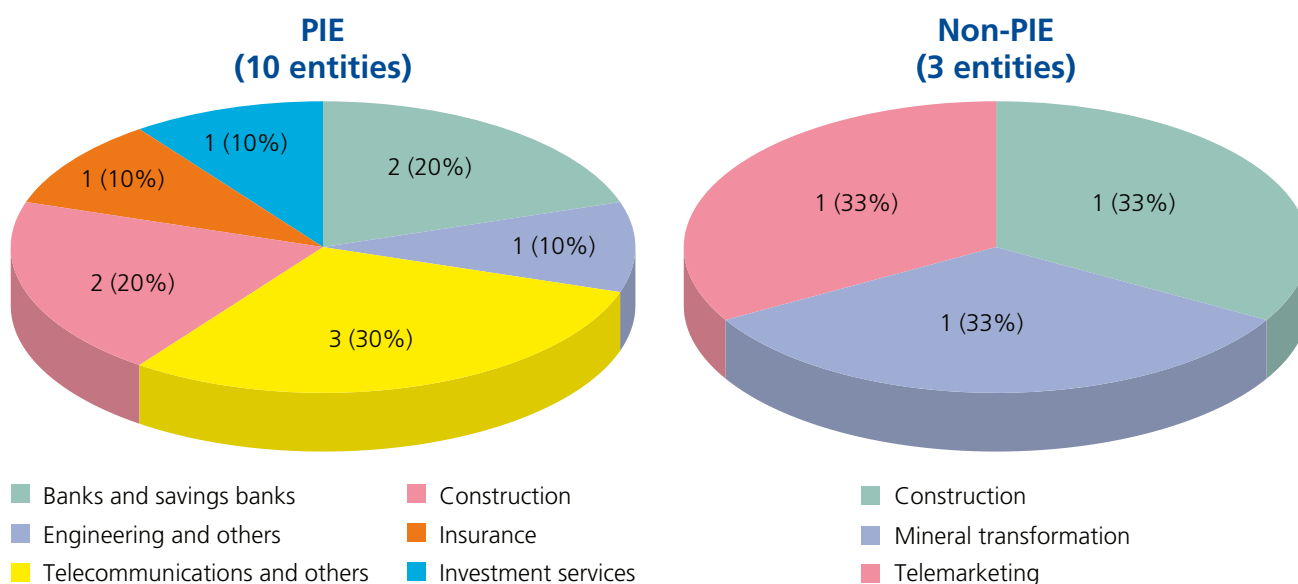
With regard to the 19 inspected audit engagements corresponding to 13 entities, no significant findings<sup>6</sup> (henceforth findings) have been identified in 4 engagements, corresponding to 4 entities, 3 of which are PIE.

The findings that appear in the inspection reports issued in 2017<sup>7</sup> shall not be included in a disciplinary proceeding. On the other hand, these findings are not related to the disciplinary proceedings mentioned in the heading of "Disciplinary activities" included in this report.

Regarding the audit engagements of other entities, for which findings have been identified, it must be borne in mind that there are five engagements in which the findings found in the audit of the individual annual accounts also imply findings in the audit of consolidated accounts in which the aforementioned individual financial information has been added.

Similarly, it must be borne in mind that the findings found do not imply the disclosure of material misstatements of the audited financial information as the purpose of the inspection is exclusively to evaluate the performance of the auditors and the audit firms, through the audit teams appointed to perform the audit engagements, taking into account the provisions of the International Standards on Auditing adapted for their application in Spain by the ICAC Resolution of October 15, 2013 of the Accounting and Auditing Institute for which the new Technical Audit Standards are published, as a result of the adaptation of the International Standards on Auditing for their application in Spain (ISA).

The entities whose audit engagements have been selected belong to the following sectors:

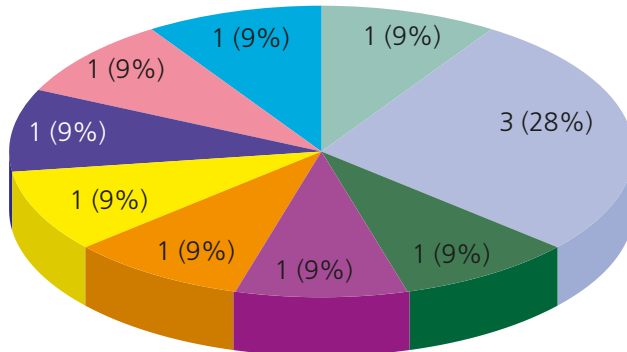


<sup>6</sup> In relation to the audits, the existence of a significant deficiency is considered when there is no documentary evidence that a relevant audit procedure has been carried out, or has not been carried out sufficiently and adequately, in relation to balance sheets, types of material (significant) transactions or reporting information, which would justify the gathering of adequate and sufficient evidence to support the audit report, in relation to a relevant affirmation of the audited financial statements; as well as when there is a breach of the independence requirements, or certain findings in relation to the evaluation of threats to independence from services, facts or certain circumstances, and application of necessary safeguard measures.

<sup>7</sup> These findings do not exclude the possibility that there may be others not identified by the ICAC inspection.

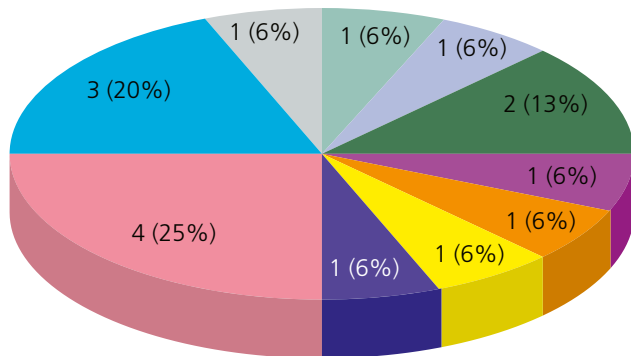
The working areas included in the scope of the inspection have been the following:

**Financing entities  
PIE**



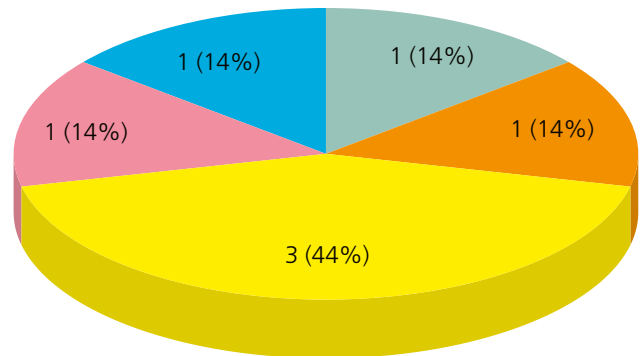
- Financial instruments
- Credit to clients
- Financial margin
- Provisions for litigation
- Net commissions
- Interest in group companies
- Goodwill
- Order accounts
- Provision for staff remuneration

**Other Sectors  
PIE**



- Fixed assets in projects
- Supplies and suppliers
- Short-term and long-term financial liabilities
- Assets held for sale and results of discontinued operations
- Assets and liabilities held for sale
- Going concern
- Mathematical provision
- Revenue, and trade receivables
- Consolidation process
- Goodwill

**Other Sectors  
Non-PIE**

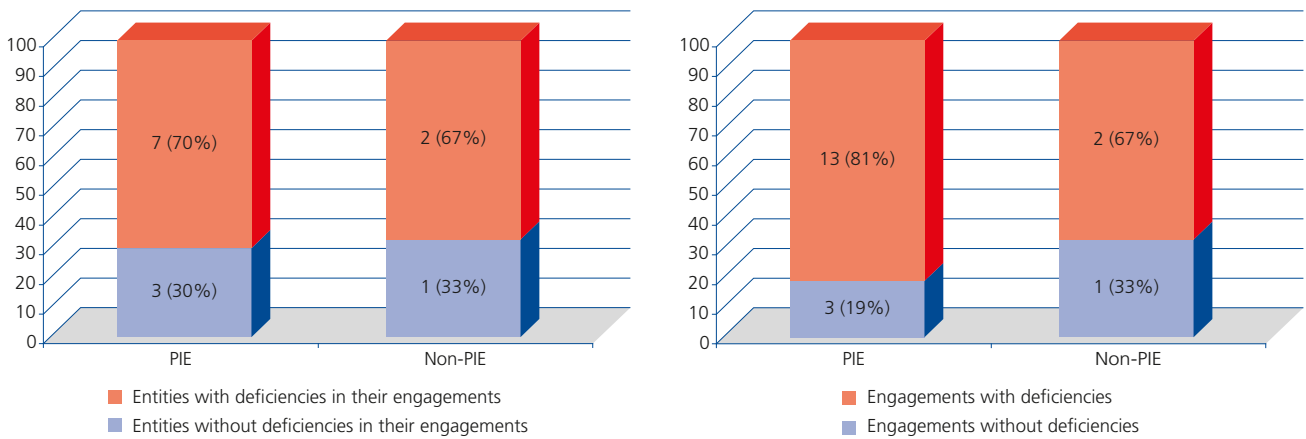
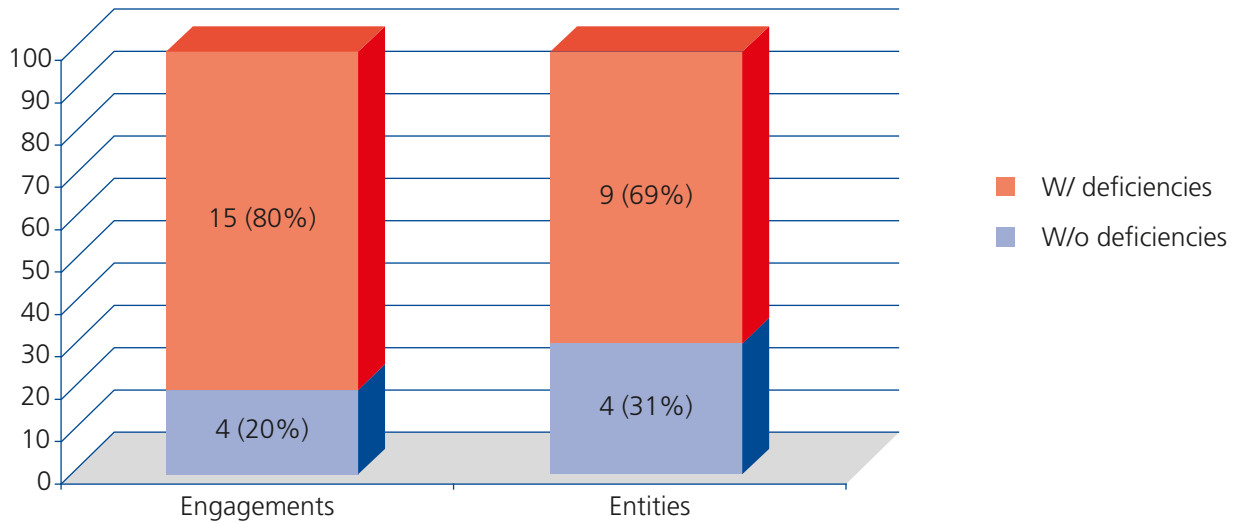


- Supplies and suppliers
- Current trade provisions
- Revenue, and trade receivables
- Cash
- Inventories

ANNEX 1 details said scope.



The chart that depicts the entities, whose audit engagements detected findings, is as follows:



A summary is then presented, by item or aspect of the audited financial statements corresponding to the audited entities, whose audit engagements were included in the inspection, in which it is shown, at the level of the assertions corresponding to said items of the financial statements and aspects of the consolidation process of all audited entities, the number of assertions regarding findings that were identified in the performance of appropriate audit procedures in order to gather adequate and sufficient evidence.

TABLE 1

Item or aspects to which the audit procedures reviewed by the inspection refer		Sector (4)	No. of Entities in which the item or aspect has been inspected, included in its accounts	Number of Entities in which at least one significant deficiency has been detected	No. of assertions in the financial information, regarding which significant findings have been detected in the audit aspects described in the following table (1)
ACCOUNTING ESTIMATES	Financial instruments	5.1 Banks and savings banks	1	1	1
	Loans to trade receivables	5.1 Banks and savings banks and 5.6 Investment services	3	2	4
	Provisions for litigation	5.1 Banks and savings banks	1	1	3
	Provisions for staff compensation	5.6 Investment Services	1	1	3
	Participations in group companies	5.6 Investment Services	1	1	1
	Goodwill	5.6 Investment Services and 6.1 Telecommunications and others	2	1	1
	Immobilizations in projects	2.6 Engineering and others	1	1	2
	Mathematical provision	5.2 Insurance	1	1	2
	Commercial provisions	2.3 Construction	1	1	3
Assets held for sale and results of discontinued operations	2.3 Construction	1	1	4	
Assets and liabilities held for sale	2.6 Engineering and others	1	0	0	
Net amount of the turnover (2)	2.3 Construction, 2.6 Engineering and others, 6.1 Telecommunications and others; Mineral transformation and Telemarketing	7	4	9	
Customers for sales and services	22.3 Construction, 2.6 Engineering and others, 6.1 Telecommunications and others; Mineral transformation and Telemarketing	7	2	4	

Item or aspects to which the audit procedures reviewed by the inspection refer	Sector (4)	No. of Entities in which the item or aspect has been inspected, included in its accounts	Number of Entities in which at least one significant deficiency has been detected	No. of assertions in the financial information, regarding which significant findings have been detected in the audit aspects described in the following table (1)
Financial margin (3)	5.1. Banks and savings banks, 5.6. Investment services	2	2	6
Procurement and suppliers	2.3 Construction	2	2	11
Short and long-term financial liabilities	2.3 Construction and 2.6 Engineering and others	2	2	4
Continuous management	2.6 Engineering and others	1	1	1
Order accounts	5.6. Investment services	1	1	1
Consolidation process	2.3 Construction, 2.6 Engineering and others and 6.1 Telecommunications and others	3	1	7
Treasury	Mineral transformation	1	0	—
Stock	Mineral transformation	1	0	—
<b>TOTAL</b>				<b>67</b>

- (1) For the consolidation process, the findings refer to the number of processes necessary for consolidation, in respect of which significant findings were detected in the audit aspects described in the following table.
- (2) Includes, for the PIEs of sector 2.3 Construction and 2.6 Engineering and others, the estimate of the costs to be incurred, when applying said PIE, the criterion of the degree of realization of the construction contracts for the recognition of income.
- (3) Interest and similar income and interest and similar charges; and fees received and fees paid.
- (4) Sectoral classification according to the Madrid Stock Exchange.

The number of findings, related to audit aspects, amounts to a total of 80, whose *more detailed description* is included in [ANNEX 3](#):

Audit aspects	No. Entities with any significant deficiency in the audit of their Annual Accounts	No. Findings by items or aspects of the financial statements		
Identification and assessment of material misstatement risks	4 PIE	1	Loans to trade receivables	
		1	Goodwill	
		1	Assets held for sale and results of discontinued operations	
		1	Provision for litigation	
		1	Provisions for staff compensation	
		2	Order accounts	
		3	Consolidation process	
	<b>Σ = 10</b>			
	1 Non-PIE	1	Net amount of the turnover	
		2	Procurement and suppliers	
		2	Provisions for completion of works and other commercial operations	
<b>Σ = 5</b>				
Testing controls- Nature	5 PIE	1	Financial instruments	
		3	Loans to trade receivables	
		1	Mathematical provision	
		1	Fees received and paid, with third parties	
		1	Fees received and paid, with related parties	
		1	Order accounts	
		1	Consolidation process	
	<b>Σ = 9</b>			
	1 Non-PIE	1	Net amount of the turnover	
		1	Procurement and suppliers	
		<b>Σ = 2</b>		
Testing controls- Sampling	1 Non-PIE	1	Net amount of the turnover	
		1	Procurement and suppliers	
		<b>Σ = 2</b>		

Audit aspects	No. Entities with any significant deficiency in the audit of their Annual Accounts	No. Findings by items or aspects of the financial statements			
Testing controls-Time to conduct audit tests	1 PIE	1	Loans to trade receivables		
Substantive tests-Nature	7 PIE	1	Financial instruments		
		4	Loans to trade receivables		
		1	Goodwill		
		1	Assets held for sale and results of discontinued operations		
		2	Provisions for litigation		
		3	Financial liabilities		
		1	Provisions for staff compensation		
		2	Participations in group companies		
		1	Mathematical provision		
		4	Net amount of the turnover		
		1	Procurement and suppliers		
		1	Order accounts		
		5	Consolidation process		
		1	Ledger entries		
		<b>Σ = 28</b>		3	Provisions for completion of works and other commercial operations
		2 Non-PIE	5	Net amount of the turnover	
			2	Customers for sales and services	
			1	Procurement and suppliers	
			<b>Σ = 11</b>		3
Substantive tests-Sampling	2 PIE	1	Net amount of the turnover		
	1 Non-PIE				
Substantive tests-Transactions with related parties	1 PIE	1	Fees received and paid		
Analytical-Substantive Tests	1 PIE	1	Fees received and paid		
	1 PIE	1	Interest and similar income, interest and similar charges		

Audit aspects	No. Entities with any significant deficiency in the audit of their Annual Accounts	No. Findings by items or aspects of the financial statements	
Analytical tests- Overall conclusion	1 PIE	1	Mathematical provision
Substantive tests- Time to conduct audit tests	1 PIE	1	Loans to customers
	1 PIE	1	Mathematical provision
	1 PIE	1	Fees received and paid
	1 PIE	1	Procurement and suppliers
<b>TOTAL</b>		<b>80</b>	

1. The items in the financial statements for which the upper management of the audited entities has conducted accounting estimates, in respect of which the ICAC inspection has evaluated the auditing procedures documented by the auditors, are from the items in which they have found a greater number of findings. Specifically, at least one deficiency has been identified regarding the engagements of six audited entities, for which at least some of the items indicated in [Table 1](#) as accounting estimates, included in their accounts, were subject to the scope of the inspection. Similarly, in the item for the net amount of the turnover (INCN), accounting estimates are included for three entities in which findings have also been found, so that the entities included in the inspection with, at least, one deficiency in the audit of accounting estimates amount to seven.

The *accounting estimates* referred to these items include a high degree of complexity and subjectivity, so the material misstatement risk identified by the auditors in their identification and assessment process of material misstatement risks has been, in most selected audits, a significant risk, which determines the need to gather more convincing evidence than for those minor risks identified by the auditors and, therefore, are subject to greater professional scepticism.

However, findings have been found that demonstrate the absence of a degree of scepticism required to perform appropriate audit procedures in order to gather sufficient and adequate evidence regarding the reasonability of such estimates.

Among these findings, some were detected in relation to the work plan to be carried out, the lack of consideration regarding the existence of a significant risk as for the deterioration of credit to customers (in 1 credit institution), as well as those related to the design of the audit tests in response to the material misstatement risks identified. In addition, findings have been identified such as the lack of specific procedures to evaluate the reasonability of the refinanced operations and the specific coverage of the corresponding credit risk; it was found that the auditors performed tests on relevant internal controls to respond to the material misstatement risk that are not capable of providing adequate and sufficient evidence of the operational effectiveness of such controls to prevent, detect and correct material misstatements in the financial statements, by limiting said tests to obtain knowledge of the design of said controls and to verify their implementation, but without gathering evidence regarding the way which said controls have worked during the audited year and the congruence with which they have been applied.

Furthermore, findings have been found, related to the representativeness of the samples to conduct tests on, for example, for the assertion of customer credit assessment, by excluding from the population a material part of the risk recorded as doubtful.

Accounting estimates are conducted, in addition to using certain methods, as well as taking into account data and assumptions.

- In relation to the data, there are findings in the performance of tests to verify the reliability of those used, both by the administration of the audited entity and by the experts of said administration.
- In relation to the assumptions, there are findings in the performance of tests to verify the reasonability of the assumptions considered by the administration of the entity or its experts.

Thus, for instance, for an insurance company, and specifically, for the life insurance business, there is no evidence of control tests for the calculation and recording of the mathematical provision nor the performance of substantive tests to verify the reliability of the necessary data for the calculation of said provision, *inter alia*, the insured capitals of the policies, as well as the performance of tests on the calculation formula of the mathematical provision in an interim period of the audited year without performing tests at closing.

Another example, related to the assumptions used in provisions for litigation, in the estimation of the recoverable amount of interests in group companies, of the provisions for completion of works or assumptions of business plans for the purpose of estimating the goodwill impairment, is that the tests are limited to the description of the assumption of the administration or the experts, without confirming corroborative evidence or the search for potential contradictory evidence.

2. Regarding the *net amount of turnover*, findings have been identified in four of the audited entities for which this item was included in the scope of inspection, including three construction or engineering entities. In this respect, the revenue from contracts from construction and engineering companies, the expenses to be incurred are important since the entities applied the revenue recognition criteria of the performance percentage regarding construction contracts, for which they included accounting estimates; having identified for an entity that no tests were conducted on the costs to be incurred and the lack of evaluation of the reasonability of the explanations provided by the audited entity on the contingencies of the contracts in order to estimate the expenses to be incurred. Likewise, in order to determine the fair value of the revenues from the construction services in concession agreements, accounting estimates are included, in relation to which a lack of specific tests have been detected to evaluate the reasonability of said fair value, as well as variations of significant margins for which the auditors did not evaluate the reasonability of the work done by the administration experts on the price input of the financial model which said margin variation was based.

Regarding this item in the financial statements, specifically, for a Non-PIE engagement, with impact on another PIE engagement, as the latter corresponds to the consolidated accounts prepared by the parent company whose shares are traded on a secondary securities market, it was found that there was no:

- Verification of compliance with the conditions for the application of the percentage method criterion regarding the execution of contracts for the recognition of revenue;

- The performance of tests to verify any incurred expenses and expenses to be incurred, and, therefore, there is no evidence of the percentage of performance of the construction services
- The evaluation of omitted information in relevant report required for the construction sector.

3. In relation to substantive analytical procedures, the following findings are highlighted:

- Expectations of the auditors regarding accounting data, without establishing plausible relationships with non-financial data, of one credit institution (interests and similar revenue and interest and similar charges).
- Expectations of the auditors from management information of the audited entity on which no procedures have been performed to verify their reliability.

4. In relation to the *time of conducting audit procedures*, findings have been detected both in relation to control tests and substantive tests, such as, for example, those observed with respect to the confidence in tested controls in the previous audited year, without verifying if significant changes occurred in the audited year; or in relation to circular tests at intermediate dates prior to closing without performing substantive tests upon closure.

5. In relation to the audit tests related to *transactions and balances with related parties*, findings have been detected about the nature of the tests, since they consist, in some cases, in the cross-checking of accounting information between said parties.

### Evolution regarding previous years

By comparing the results of the inspections completed in 2017, with those of previous years, no findings were identified in 2017 in relation to the materiality and use of the internal audit work, in comparison with other financial years.

Similarly, in relation to the audit engagements of 3 PIEs, belonging to the same group, included in one of the inspections completed in 2017, no significant findings have been identified. This means that those engagements were also selected in an inspection completed in 2012, the latter of which identified findings in relation to the items of the net amount of turnover and goodwill. This data indicates an improvement of said firm in the performance of the audit engagements of said entities.

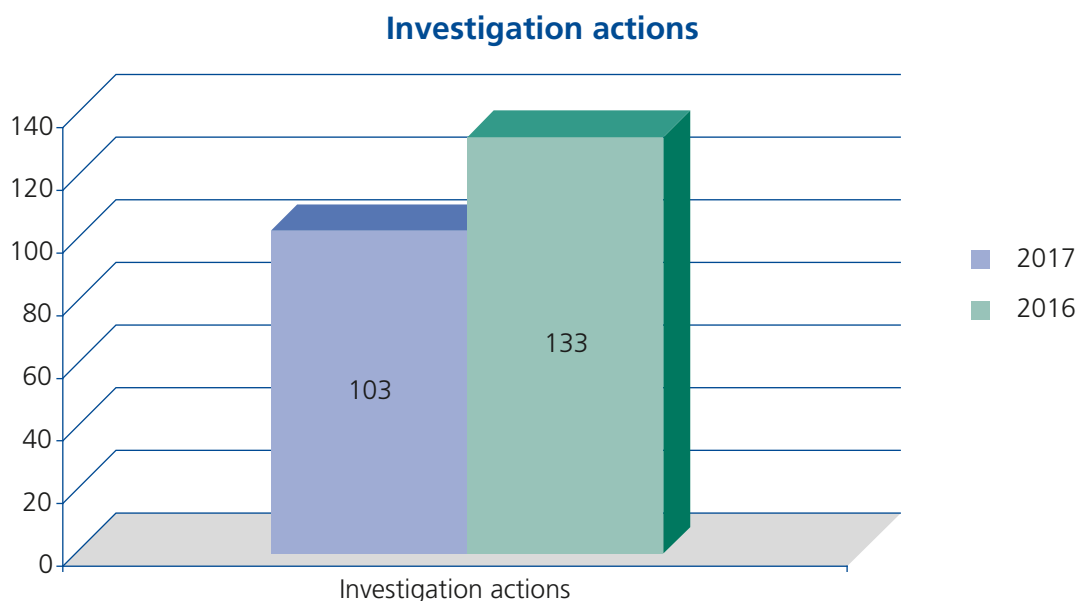
However, in 2017, findings in audit procedures such as control tests, substantive tests, analytical substantive tests and sampling continued to be identified, which affect accounting estimates and revenues, demonstrating the need for audit firms to increase their efforts in order to improve their systems of quality control and procedures regarding the performance of the audit work.

### **b) Investigation actions**

In 2017, 103 investigation actions were performed on audit engagements, 2.8% less than planned, directly carried out by the ICAC. Out of this number of actions, 34 (33%) arose due to complaints and 69 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.



	2017	2016
Investigation actions	103	133



Out of the complaints received, mainly relating to the audit engagements of entities other than PIEs, once analysed, 68% 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 100% of these cases, indications of breaches of the audit regulations could be seen, as detailed:

Potential indications of breaches	Nº of potential breaches found
Potential breach of Auditing Standards that could have a significant effect on the result of the work and, consequently, on the audit report	8
Potential lack of independence	3

From all of this, it can be inferred that in 32% of the aforementioned complaints received, there were indications of breaches of the audit regulations involving a non-time barred infringement.

In addition, 67 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 64 of these actions

### c) Evolution of control actions compared to the previous year

The following table shows the evolution of the actions of the Sub-directorate General of Inspections and Investigations in 2017, compared to financial year 2016:

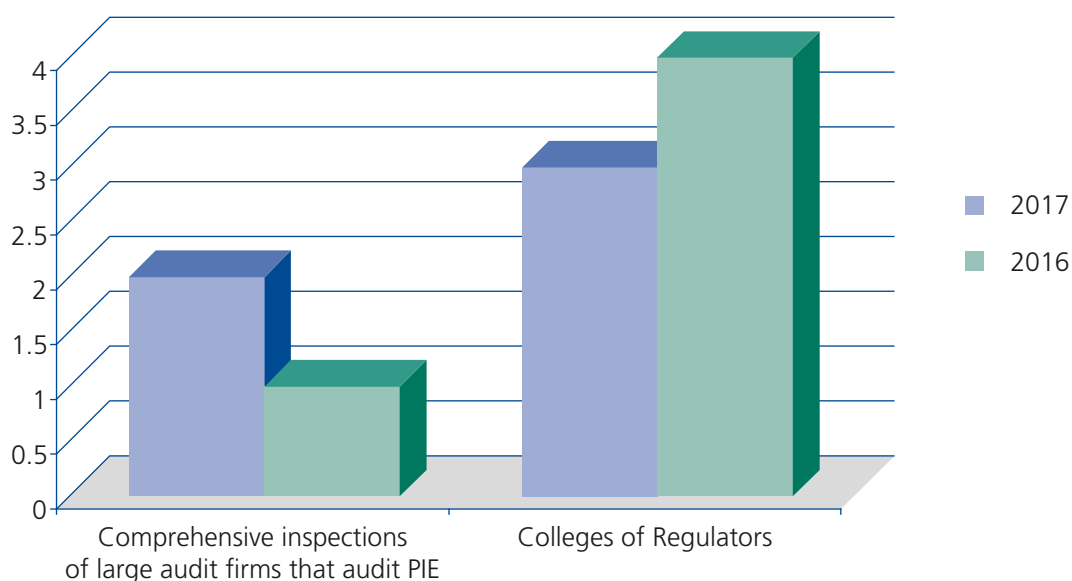
	2017	2016
Inspections	2	1
Investigations	103	133
<b>TOTAL</b>	<b>105</b>	<b>134</b>

The comparison of inspection actions is as follows:

<b>DIRECT INSPECTION ACTIONS (1)</b>	2017	2016
Comprehensive inspections of large audit firms that audit PIE	2	1
Colleges of Regulators	3	4
<b>TOTAL</b>	<b>5</b>	<b>5</b>

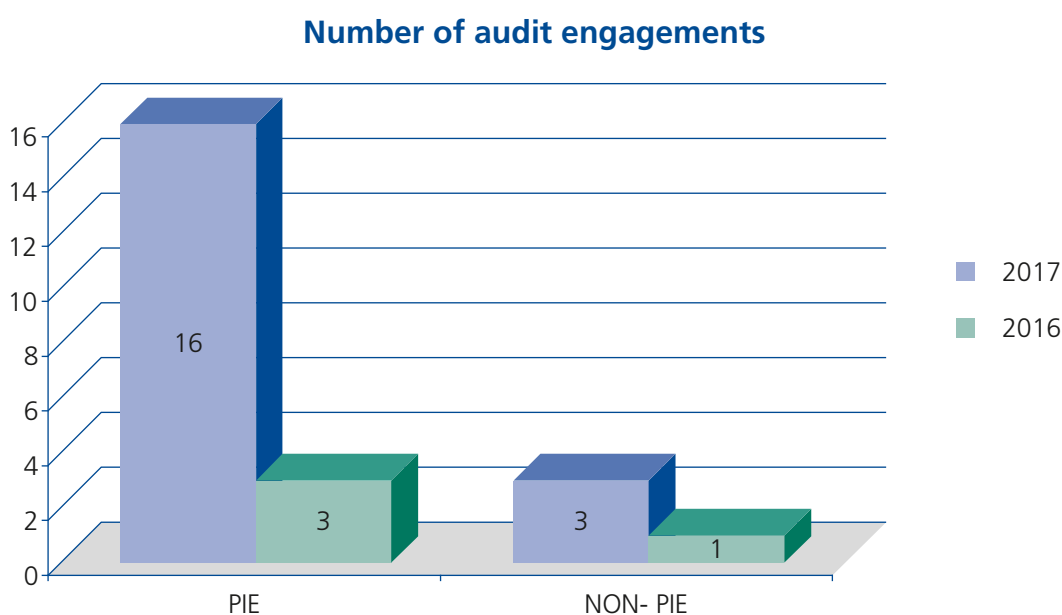
(1) The calculation criterion in this report is the number of inspections performed on auditors or audit firms. In the report corresponding to the 2016 activities, the calculation criterion was that of equivalent actions. Notwithstanding, the data in this column is reexpressed to meet the same criteria, and for the purpose of improving the understanding, comparability and usefulness of the information.

#### Direct inspection actions



The comparison of the audit engagements included in the inspection is as follows:

Number of audit engagements	2017	2016
PIE	16	3
NON-PIE	3	1
<b>TOTAL</b>	<b>19</b>	<b>4</b>



In the *investigations*, the year 2016 included an investigation of an audit engagement of a PIE, and no investigation of PIE audit engagements was pursued in 2017.

Taking into account the limitation of the resources allocated to the ICAC, as well as the greater risk for the public interest; in 2017, the supervisory effort of the audit activity has focused on PIE auditors, with one more comprehensive inspection having been conducted than in the year 2016. No collaboration action with any professional associations of auditors has been taken.

Considering the above data, in relation to direct actions, the increase is due to the greater effort in inspections and, particularly, to a greater number of third parties for assistance in inspection teams. During 2017, additional resources were allocated to conduct two additional inspections of a large and medium-sized audit firm.

The staff assigned to the Sub-directorate General of Inspections and investigations has intervened both in the conduct of inspections and investigations, with an estimated number of 11 technical civil servants, in terms of working hours, dedicated to the inspections. In addition, according to the LAC, during financial year 2017, said Sub-directorate has had five specialists, during part of the year, equivalent to three specialists in terms of working hours, in matters relevant to financial information and auditing, for assistance in inspections, under the direction and supervision of civil servants.

## INTERNATIONAL ACTIVITY

The Sub-Directorates General of Technical Control and Technical Audit Standards regularly participate at the international meetings, 17 being the number of these meetings in 2017, relating to the following organisations:

- European Union Committees.  
Audit Regulatory Committee (AuRC): integrated by the authorities with regulatory power regarding audits of the different Member States of the European Union.
- Plenary sessions of the Committee of European Auditing Oversight Bodies (CEAOB). CEA-OB is composed of senior representatives of the competent authorities from the Member States of the European Union. Its mission is to organise cooperation between these competent authorities to promote the coherent application of European legislation on auditing, facilitate the exchange of information and advice to the Commission in matters including technical evaluation of oversight systems of third countries and the technical examination of international auditing standards with a view to their adoption at European level.
- CEAOB International Standards on Auditing Subgroup: European working group in which draft standards issued by the international issuer, International Auditing and Assurance Standards Board (IAASB) are analysed, in order to write comment letters for submission to said issuer. Analysis of the differences between the regulations applicable to each Member State of the European Union and the Standards issued by the IAASB is also conducted, with the aim of advising the European Commission in the process, which in its case, could give rise to the adoption of the Standards at European level.
- CEAOB Inspection Group: 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).
- Colleges of Competent Authorities: established for every three 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, made up of 52 authorities from the five continents and with the objective of exchanging experiences and knowledge regarding inspections and technical audit standards. This Forum holds both Plenary sessions and group sessions
- Competent authority of the United States of America (PCAOB): Joint inspection activities, in accordance with the provisions of article 67 of the LAC.

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, 41 being the number in attendance at these conferences calls in 2017, relating to the following groups:

- IFIAR Standards Coordination Working Group (SCWG): attendance at 13 conference calls; to plan the actions and schedules of the subgroup regarding the comment letters on Standards issued by the 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); monitoring is performed on the points agreed in previous conferences, to discuss the need to modify

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 standards on auditing 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 15 conference calls to discuss aspects of improvement in audit firms.
- CEAOB Auditing Standards subgroup: attendance at 8 conference calls to discuss the preparation of a report to be presented at the CEAOB plenary session regarding the differences between the Auditing Standards applicable in Member States and the International Standards on Auditing issued by the IAASB as well as to discuss and prepare a letter of comments regarding the draft of ISA 540 "Auditing accounting estimates and related disclosures" presented by the IAASB; and a letter of comments on the project presented by the Monitoring Group of the International Federation of Accountants (IFAC) on governance alternatives.
- CEAOB Enforcement Subgroup: attendance of 5 conference calls to prepare the report to be presented in the plenary session of CEAOB regarding the practices of investigations and existing sanctions, the statistics of the imposed sanctions according to the new European legislation on auditing, and the form to communicate temporary and final de-registration sanctions to CEAOB, in accordance with the provisions of article 30.f) of Directive 2006/43/EC, as drafted by Directive 2014/56/EU of European Parliament and Council of April 16, 2014.

In addition, the ICAC has participated in the first meeting organised by the European Systemic Risk Board (ESRB) and CEAOB in 2017, with auditors and audit firms of financial institutions of systematic importance at international level and authorised within the European Union, according to Article 12.2 of Regulation (EU) 537/2014, of the European Parliament and of the Council, of April 16, 2014, on specific requirements for the legal audit of PIEs.

## MANAGEMENT OF RESOURCES AND 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)

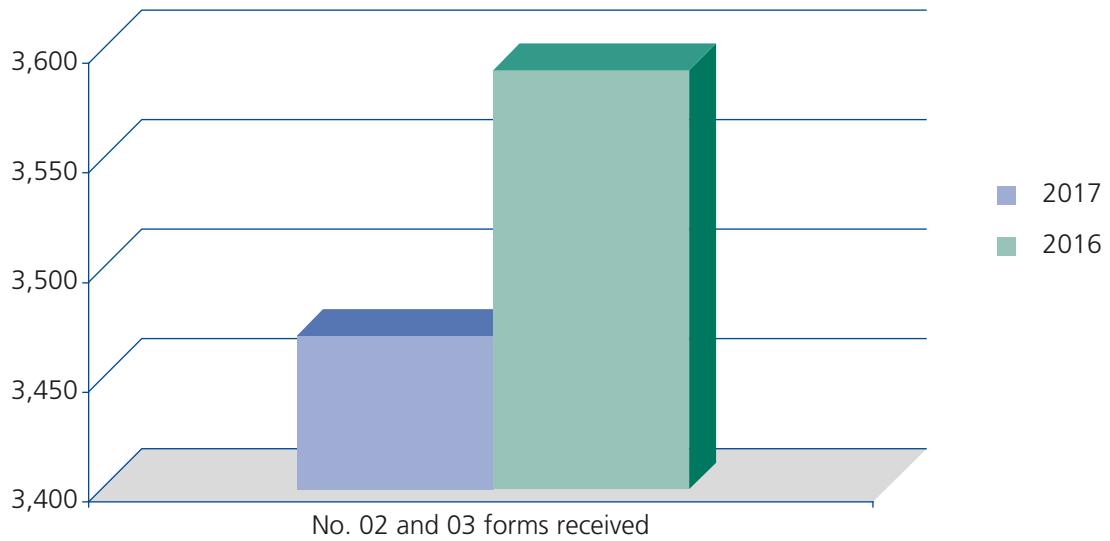
Access to the ROAC is by means of meeting the requirements and passing the tests set out under Audit Law 22/2015, of July 20, 2015, and in the implementing Regulation of the consolidated text of the Audit Law, passed by Royal Decree 1517/2011, of October 31, 2011. Only the auditors who are members of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

The following activities were performed in relation to the ROAC:

ROAC	2017	2016
No. of 02 and 03 forms received	3,470	3,591
Modifications of auditors and audit firms (*)	908	850
Registration of auditors	56	396
De-registration of auditors	52	54
Registration of companies	40	53
De-registration of companies	47	49
Certificates issued	1,509	1,836
<b>FEE (art.87 LAC): CROSSOVER BETWEEN FORMS 02/03</b>		
Settlement proposals	107	662
Amount	357,234.16 €	392,882.09 €
Settlement proposals filed	11	92
Amount	17,526.86 €	34,445.22 €
Provisional settlements	83	569
Amount	44,297,91 €	253,120.73 €
Revenue from proposals or settlements	49	445
Deposited amount	113,926.30 €	201,675.63 €
<b>Enforced tax collection</b>		
Debts sent to the Spanish Inland Revenue for enforced tax collection	4	115
Amount	502.70 €	51,742,90 €

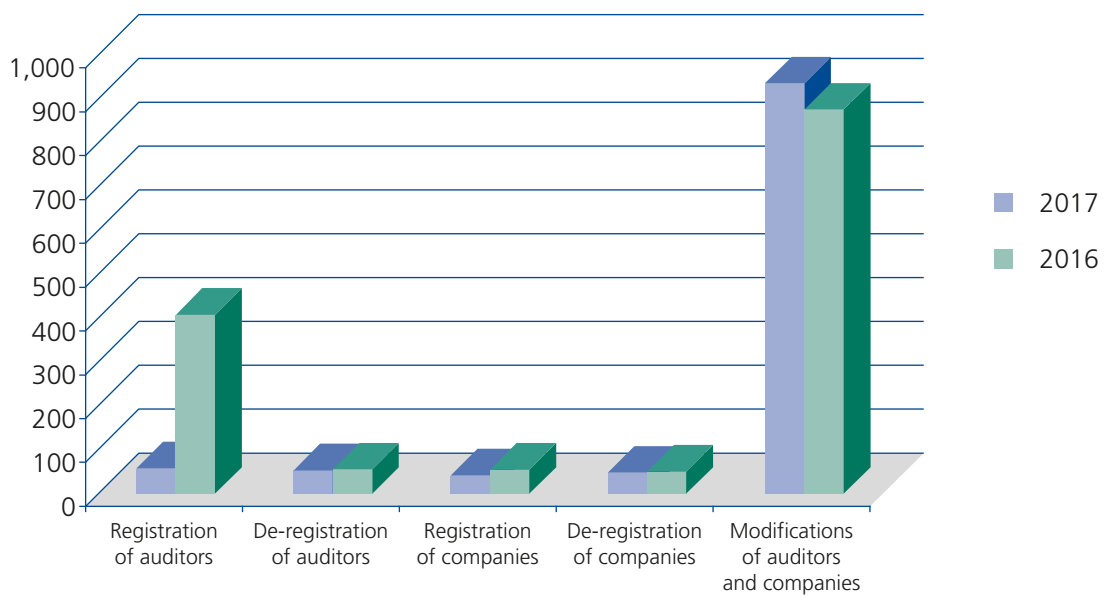
(\*) The number of requests submitted by auditors (forms R21, R31, R32 and R33) and audit firms (forms R51 and R52) regarding changes of situation and modification of data were taken into account.

### Information provided by auditors and firms

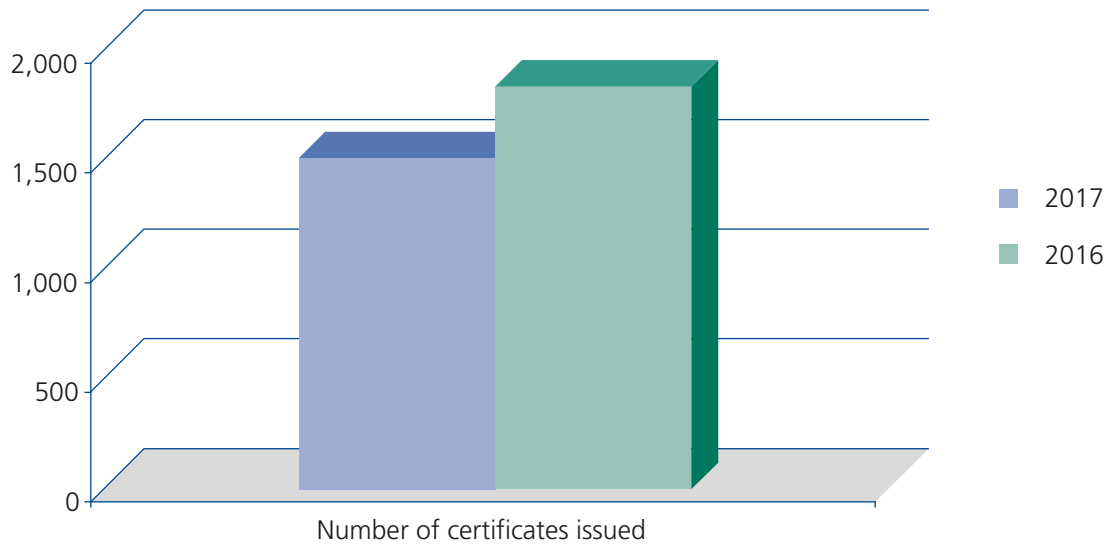


Forms 02 and 03 refer to those approved by the ICAC Resolution of June 29, 2012 (amended by the Resolutions of July 25, 2014, October 31, 2016 and September 29, 2017), for the provision of the compulsory information by auditors and audit firms.

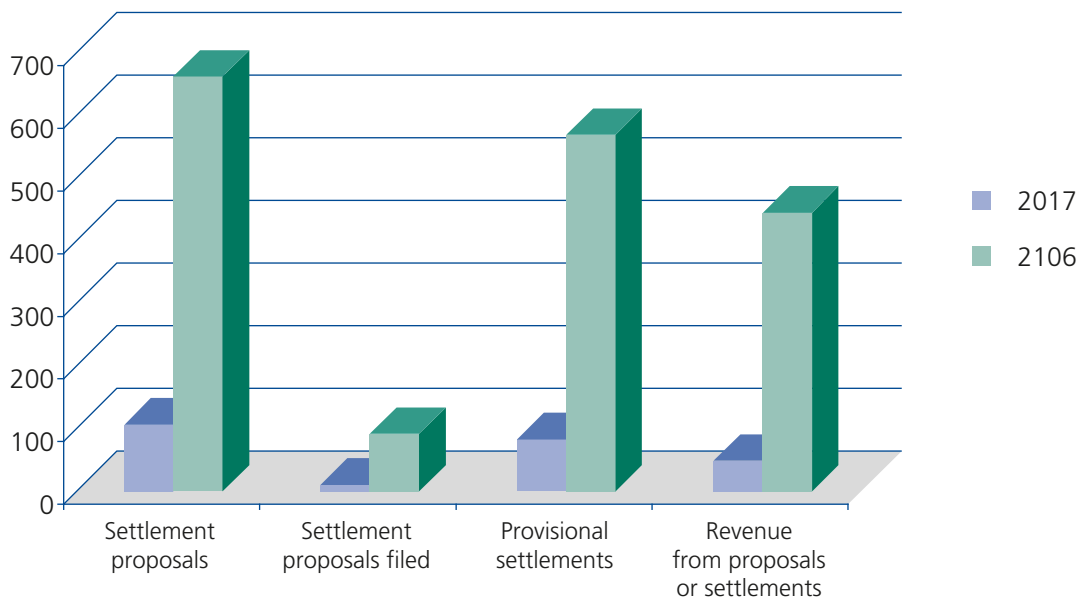
### Official Register of Auditors



### Certificates issued

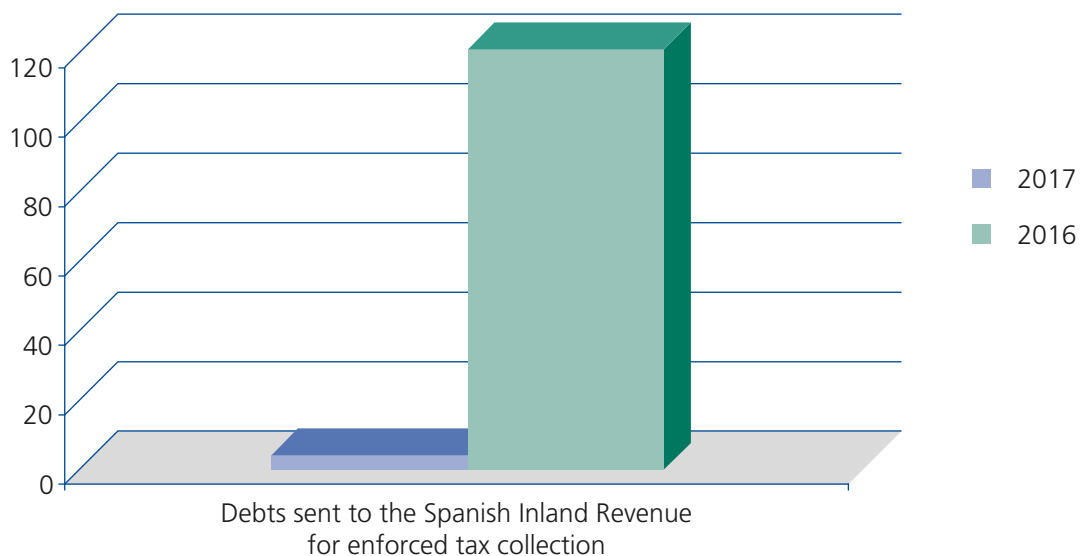


### Management of the fee





**Enforced tax collection**

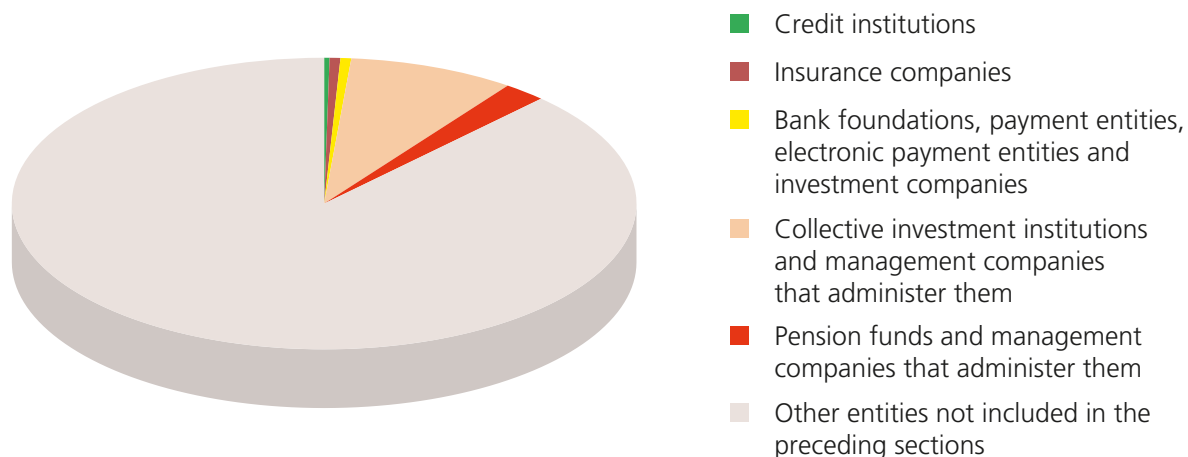


Practising auditors and audit firms declared a total of **60,566 audit engagements** to the ROAC between October 1, 2016 and September 30, 2017.

The breakdown by type of audit is as follows:

Audit engagements	NUMBER	%
Credit institutions	228	0
Insurance companies	322	1
Banking foundations, payment institutions, electronic money institutions and investment services companies	255	0
Collective investment institutions and management companies that administer them	5,214	9
Pension funds and management companies that administer them	1,414	2
Other entities not included in the preceding sections	53,093	88

### 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 October 1 of the previous year and September 30, 2017, the annual report entitled "The auditing situation in Spain" is prepared. According to the report on the Auditing Situation in Spain in 2017, the number of practising auditors was 3,803, of whom 2,253 work as independent contractors and 2,821 work for companies (1,058 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 10,202,946 hours were invoiced, 9,698,784 of which were billed by audit firms and 504,162 by auditors working as independent freelancers.

It is worth mentioning that the ICAC staff has participated in the organisation and management of the joint call of the Institute of Chartered Accountants of Spain and of the General Council of Spanish Colleges of Economists - Register of Economist Auditors (CGEE-REA), for the professional assessment exam in order to register at the ROAC, approved by resolution of June 6, 2017, of the Chairman of the Institute, and published by Order EIC/624/2017, of June 26, 2017.

### Electronic administration

In accordance with the provisions set forth in Law 39/2015, of October 1, 2015, 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> whose management and maintenance corresponds to the IT department of the General Secretariat.

In terms of computer security, the National Security Scheme (NSS), created by Law 11/2007, which remains in effect due to Law 39/2015 and which is regulated by Royal Decree 3/2010, of January

8, 2010, 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

In 2017, regarding the efforts made by the ICAC for its adaptation to ICT requirements established by Law 39/2015 and Law 40/2015, both back-office and front-office, the Institute has made it possible, for the first time, for officials with specific roles to have an official electronic certificate. This has strengthened the use of general applications in the processing with other administrations or third parties (Docelweb, Badaral, Conecta-Centralización, Atena, etc.), aiming that, since this financial year, relations with the Delegate Intervention, the Legal Service, the Registration of personnel, the General Budget Office or the General Directorate of Contracting Rationalization and Centralization, are entirely electronic. In documents sent electronically to third parties through other channels, the use of Autofirma has been enhanced.

In addition, in 2017, the ICAC has begun to use the INTECO platform for the collection of non-taxable revenue, since the income from disciplinary actions was processed through the Directorates of Economy and Finance.

The management and administrative processing for the adherence to Notific@ and GEISER have also been carried out, whose use in definitive production will be launched in 2018, and the bases have been laid down in the management applications of the ROAC for the exploitation of the electronic information in its entirety, from the next year.

From the electronic relationship with other administrative centres arises from the need to manage and maintain a series of mandatory platforms and applications. These applications are summarised below, managed and maintained by the ICAC in its relationship with third parties throughout 2017:

Platform application	Content	Related centre
SOROLLA	Budget Processing and Fixed Cash Advances	IGAE
Docel web	Processing of contract files, ID, and fees	IGAE
Red.Coa	Submission of annual accounts	IGAE
SIC-3 OOAA	internal accounting	IGAE
SIC-INTECO	Non-taxable revenues	IGAE
SIC-CANOA	Costs	IGAE
CORENET	Application for material intervention	IGAE
AUDINET	Permanent Financial Control and Public Auditing	IGAE
SINOI	IGAE Notifications	IGAE
GALA	Identity management	IGAE
BDNS	National Database of Subsidies	IGAE

Platform application	Content	Related centre
CINCONET	Economic data external queries	IGAE
ATENEA	Budget Modifications	IGAE-DGPresupuestos
NEDAES	Payroll	Public Administration
Badaral	Central Personnel Register	Public Administration
Funciona	HR procedures	Public Administration
SIGPE	Communications with Public Administration	Public Administration
Conecta-centralización	Centralised contracting	DGRCC
CMAE	ICT centralisation	SGAD
Notifica (pre-production)	Electronic notifications DEH	SGAD
Geiser (pre-production)	Electronic record	SGAD
Contracting Platform	Electronic bidding (in tests)	MINHAFP
ALMACEN	Exchange of files (dropbox)	MINHAFP
SICOPO	Editorial Plan	Office of the Chairman
GAMO	SME management	PME-MINHAFP

In addition, the General Secretariat manages its own applications. During 2017, the following ones:

Platform application	Content
ROACNet	ROAC
ROAC website	ROAC fees and procedures
ATLAS BD	Database
MiEscritorio	Public supervision system
VISION	Public supervision system
Depósito de Cuentas	Disciplinary proceedings for non-deposit of accounts
Intranet	ICAC
MiContabilidad	Accounting
SharePoint	Public supervision system
SABI	Search by standard criteria of financial statements
EVALOS	Personnel time control

The ICAC currently has an integrated website within the website of the Ministry of Economy, Industry and Competitiveness.

The following electronic procedures and services are currently implemented at the ICAC website:

1. Information to be sent by auditors and audit firms (forms 02 and 03).
2. Fee for the issuance of certificates or documents at the request of a party and for the inscriptions and annotations in the Official Register of Auditors (code 609). Article 88 of the Audit Law 22/2015, of July 20, 2015.
3. Fee for the oversight of the audit activity (code 608). Article 87 of Audit Law 22/2015, of July 20, 2015.
4. Registration/De-registration as a practicing auditor, without change of situation (form R22).
5. Registration of an auditor in the Official Register of Auditors (form R1).
6. Registration of an audit firm in the Official Register of Auditors (form R4).
7. De-registration of an auditor from the Official Register of Auditors.
8. De-registration of an audit firm from the Official Register of Auditors.

9. Modification of public data of an auditor registered at the Official Register of Auditors as a practitioner (form R31).
10. Modification of data of an audit firm in the Official Register of Auditors (form R51).
11. Consultation of professional entrance exam grades for access to the Official Register of Auditors.
12. Consultation and communication of ongoing training activities for auditors.
13. Validation of documents by EVC (Electronic Verification Code).
14. Consultation of the applications record in the Official Register of Auditors of the auditor or the audit firm.
15. Application for registration certificate in the Official Register of Auditors of the auditor or audit firm (form R6).
16. Modification of non-public data of the companies registered in the Official Register of Auditors (form R52).
17. Modification of non-public data of auditors registered in the Official Register of Auditors (form R33).
18. Modification of data of auditors not registered as practitioners in the Official Register of Auditors (form R32).
19. Change of situation in the section of natural persons of the Official Register of Auditors (form R21).
20. Application for admission to the professional entrance exam to register in the Official Register of Auditors.

As for the INTRANET of the ICAC, during 2017, in addition to the basic functions of an intranet in terms of vacation and day off request systems, payroll consultation, etc ..., the "My programs" section allows access to tools for the internal management of the following system:

- Web administration of the ICAC.
- Actions of the Sub-directorate General of Technical Control.
- Record of ICAC inputs and outputs.
- Library.
- Accounting Queries.
- Accounts Filing Records.
- Registration Certificates in the ROAC.
- ROAC Headquarters.
- ROAC administration.
- Query of 02 and 03 forms.
- Rate 791 Management.
- Ongoing Training.
- SBI Atlas .
- Evalos Administration.

## Regulatory Projects and the Audit Committee

During this period, 33 reports and queries of the General Secretariat were carried out:

- A complaint / suggestion / claim.
- 4 parliamentary questions.
- 4 requests for access rights in accordance with Law 19/2013, of December 9, 2013, on transparency, access to public information and good governance.
- 24 queries.

Organisation and coordination of the meetings of the Audit Committee (4 meetings and 3 online sessions in 2017).

## 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 2016 has been published in the Official Gazette of this Agency for March 2017 (BOICAC number 110).

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 July 20, 2015 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".

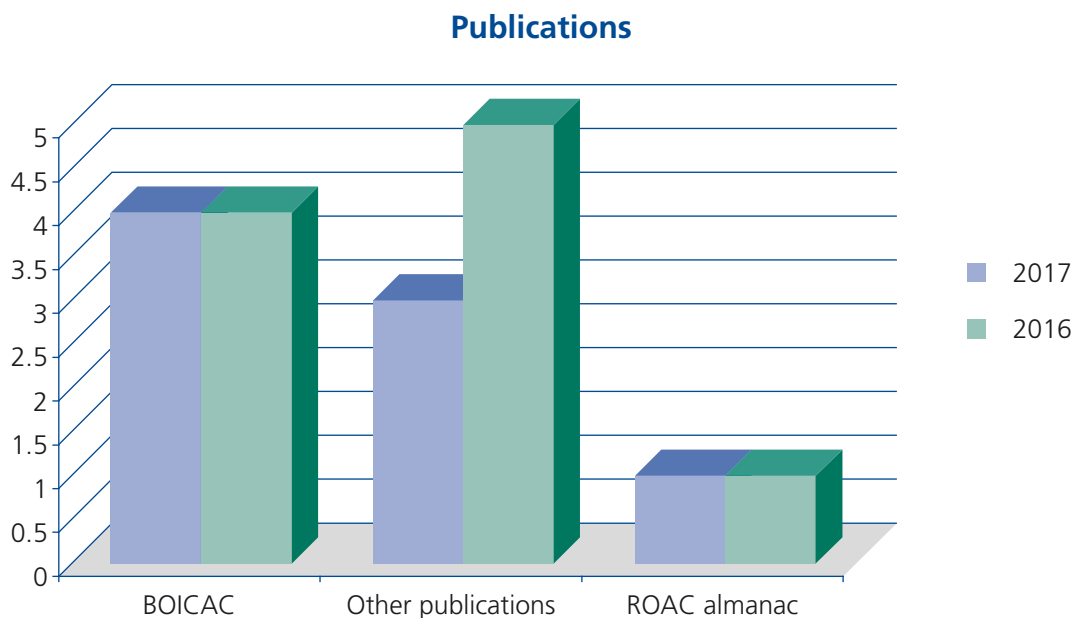
Both publications are freely and openly available on the website of the AEBOE, which is updated when any standard is published that the ICAC believes forms a fundamental part of the regulations on Accounting or Auditing.

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 2017 regarding titles published with respect to the previous year, were as follows:

Publications	2017	2016
BOICAC	4	4
Other publications	3	5
ROAC almanac	1	1



In 2017, for the purpose of disseminating ASEPUC 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. This was the last publication of the year and available online, the XII "ASEPUC" doctoral thesis award corresponding to the awarding resolution announced and published in the BOICAC no. 108/December 2016.

An agreement was also signed with ASEPUC for the preparation of technical reports in accounting and auditing matters, which will produce the first studies as of 2018.

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.



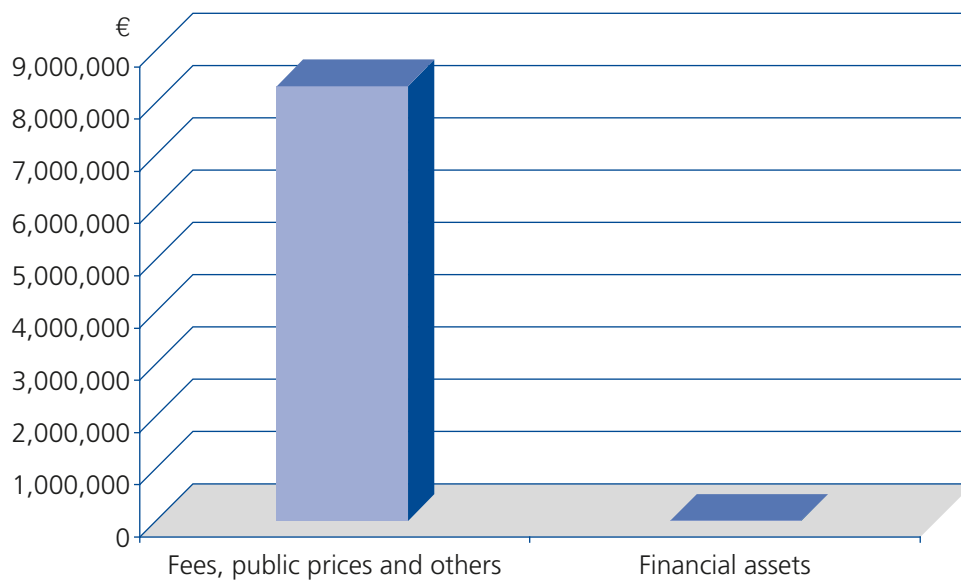
## ECONOMIC-FINANCIAL INFORMATION

### Economic data

The Accounts department is responsible for preparing the accounts and the budgets and presenting these. In 2017, the ICAC earned a total income of €8,531,402.36, which is broken down as follows:

Chapter	Preparation of the income budget for 2017	€	%
III	Fees, public prices and others	8,527,866.32	99.95
VIII	Financial assets	3.536,04	0.05
<b>TOTAL</b>		<b>8,531,402.36</b>	<b>100.00</b>

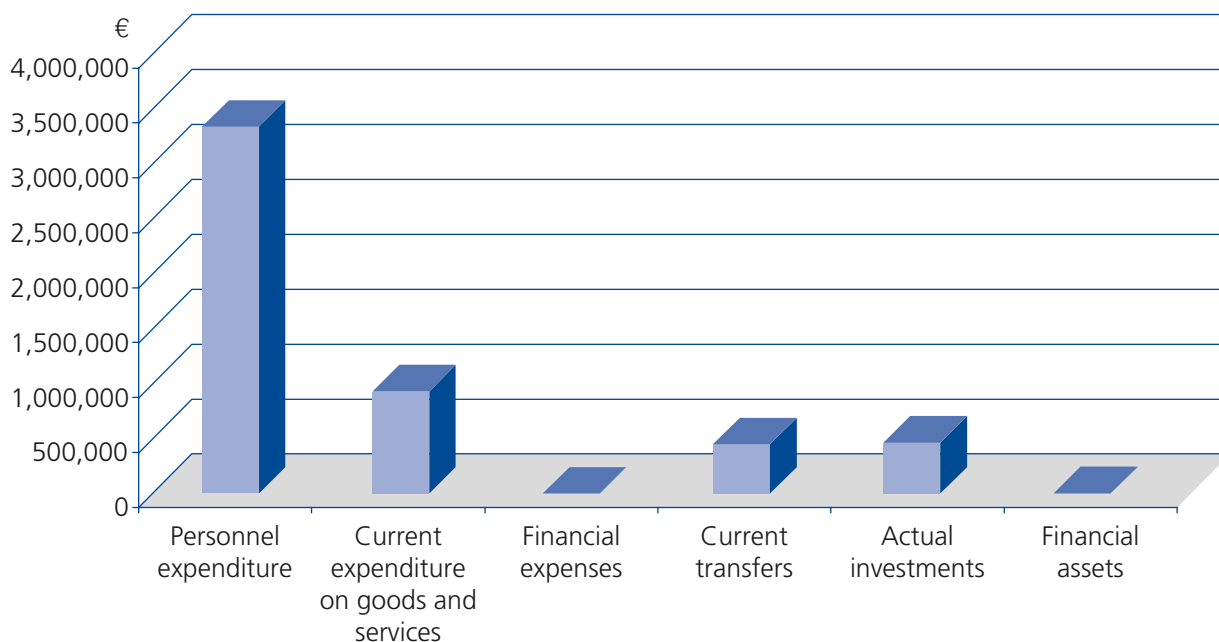
Preparation of the income budget for 2017



In 2017, the expenses amounted to €5,174,723.35, with the following breakdown:

Chapter	Implementation of expense budget 2017	€	%
I	Personnel expenditure	3,335,502.79	64.46
II	Current expenditure on goods and services	927,633.37	17.93
III	Financial expenses	0.00	0.00
IV	Current transfers	448,408.00	8.66
VI	Actual investments	461,746.65	8.92
VIII	Financial assets	1,432.54	0.03
<b>TOTAL</b>		<b>5,174,723.35</b>	<b>100.00</b>

### Implementation of expense budget 2017



### 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 February 19, 2016, 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 relevant income from the sale of publications.

## Contracting

For the performance of all the activities, it has been necessary to contract and sign agreements that are summarized below:

1. Processing of contract: contracting or extension of centralised services and supplies, and printing and distribution of the BOICAC and the ROAC Yearbook and the IFRS, various contracts for assistance by performing the instrumental tasks in the inspections of auditors and audit firms, carried out by the ICAC under article 55 of Audit Law 22/2015, of July 20, 2015, 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 LOPD Audit, purchase of books and publications that form the ICAC bibliographical foundation, acquisition of diverse computer equipment, 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 works during 2017, 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 2017.

The processing includes all the phases: spending proposal and approval of it after prior control, commitment, recognition of the obligation and payment order, and its 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. 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 fling 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.

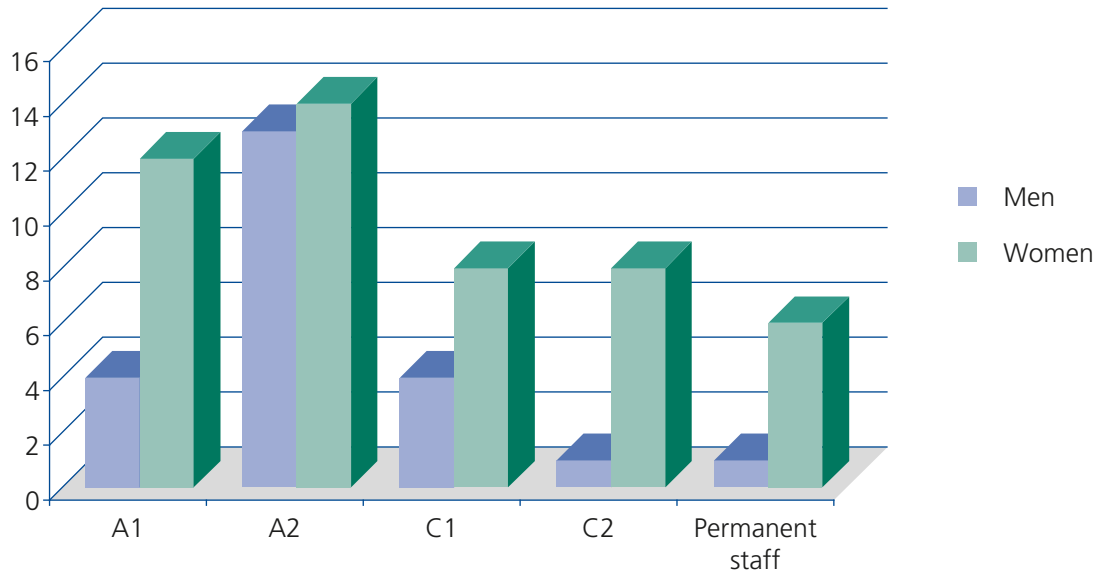
Preparation and presentation of form 347 of annual declaration of operations with third parties.

2. Collaboration agreements: In 2017, the Agreement with ASEPUK was maintained for the annual awarding of Awards for research in accounting and auditing, signed in 2016. The agreements with the IGAE for assistance and hosting of the Sorolla2 and Canoa systems have been renewed. Processing of the Lawyers' reports and processing of the flings 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



TYPES OF PERSONNEL	MEN	WOMEN	TOTAL
<b>SENIOR POSTS</b>	1	0	1
<b>OFFICE TEMPORARY PERSONNEL</b>	0	0	0
<b>CIVIL SERVANTS:</b>			
Group A1	4	12	16
Group A2	13	14	27
Group C1	4	8	12
Group C2	1	8	9
Professional groups	0	0	0
<b>TOTAL</b>	<b>22</b>	<b>42</b>	<b>64</b>
<b>OTHER PERSONNEL:</b>			
Contracted administrative employees	0	0	0
Miscellaneous personnel (1)	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NON-STATUTORY STAFF:</b>			
Chapter I Permanent Staff	1	6	7
Chapter I Temporary Staff	0	0	0
Chapter VI	0	0	0
<b>TOTAL</b>	<b>1</b>	<b>6</b>	<b>7</b>

**ANNEX 1**  
**SECTORS WHERE ENTITIES OPERATE WHOSE AUDIT ENGAGEMENTS**  
**WERE INCLUDED IN THE INSPECTIONS COMPLETED**  
**IN 2017 - INSPECTION FOCUS AREAS**

Sector-Subsector	N° of audit entities		N° of engagements	
	PIE	Non-PIE	PIE	Non-PIE
5.1 Banks and savings banks	2 <sup>8</sup>		3	
2.6 Engineering and others	1 <sup>1</sup>		2	
6.1 Telecommunications and others	3 <sup>9</sup>		3	
2.3 Construction	2 <sup>1</sup>	1	4	1
5.2 Insurance	1		1	
5.6 Investment Services	1 <sup>1</sup>		2	
Mineral transformation		1		1
"Telemarketing"		1		1
<b>TOTAL</b>	<b>10</b>	<b>3</b>	<b>15</b>	<b>3</b>
<b>TOTAL</b>	<b>13</b>		<b>18</b>	

The selected tasks were the audits of the annual accounts, as well as, for the entities that issued and trade securities in secondary markets, the auditing of the consolidated accounts.

<sup>8</sup> Entities issuing and trading securities in secondary markets.

<sup>9</sup> The three entities that belong to a group, one of them being the issuing company of securities traded in secondary markets.

The following areas were selected by the inspection:

Items from financial Statements	Sector	5.1 Banks and savings banks		5.6 Investment services	
		N° PIE	N° Engagements	N° PIE	N° Engagements
Financial instruments		1	2		
Credit to clients <sup>10</sup>		2	4	1	2
Financial margin		1	2		
Provisions for litigation		1	2		
Net commissions				1	2
Interest in group companies				1	2
Goodwill				1	2
Order accounts				1	2
Provisions for staff remuneration				1	2

<sup>10</sup> For a PIE, with effect on two audit engagements, the review was limited to the impairment of credit risk.



Items from financial statements/area	Sector	2.3 Construction			2.6 Engineering and others		
		N° PIE	N° Non-PIE	N° Engagements		N° PIE	N° Engagements
				PIE	Non-PIE		
Fixed assets in projects						1	1
Net amount of turnover and customers for sales and services		1	1	3	1	1	1
Procurement and suppliers		1	1	3	1		
Short-term traffic provisions			1	1	1		
Short and long-term financial liabilities		1		2		1	2
Assets held for sale and results from discontinued operations		1		1			
Assets and liabilities held for sale						1	1
Continuous management						1	2
Consolidation process		1		1		1	1

Sector	5.2 Insurance	
	N° PIE	N° Engagements
Mathematical provision	1	1

Sector	6.1 Telecommunications and others	
	N° PIE	N° Engagements
Net amount of turnover and customers for sales and services	2	3
Goodwill	1	1
Consolidation process	1	1

Sector	Mineral transformation		"Telemarketing"	
	N° Non-PIE	N° Engagements	N° Non-PIE	N° Engagements
Net amount of turnover and customers for sales and services	1	1	1	1
Treasury	1	1		
Stock	1	1		

## ANNEX 2

No. of audit firms	No. of findings	Element of the System of Quality Control	FINDINGS RELATED TO THE REVIEWED ELEMENTS OF THE SYSTEM OF QUALITY CONTROL	
1	2	<b>Leadership</b>	<b>Assignment of monitoring responsibilities</b>	Lack of definition of the functions of the person responsible for monitoring appointed by the audit firm and lack of participation of said person in the monitoring. Lack of an adequate segregation of functions, when participating in the monitoring, the person in charge of the professional practice without indicating the adoption of measures to avoid the corresponding conflict of interest that may affect the objectivity of the monitoring.
			<b>Transparency report</b>	Lack of description of the <b>organisational structure of the audit firm</b> in charge of the implementation of the Elements of the system of quality control and identification of those responsible for said system.
1	5	<b>Acceptance and Continuance of Audit Engagemetns</b>	<b>Evaluation of the independence risk</b>	In the process of signing acceptance and continuance of audit engagements, the question is included as to whether the independence evaluation has been carried out, but the evaluation of the compliance with the independence requirements is not confirmed before accepting/continuing with the audit engagements.
			<b>Risk assessment of audit engagements</b>	Absence of adequate policies and procedures implemented for the risk assessment of the audit engagements of a group of companies, taking into account the risk of each of the grouped entities.
			<b>Professional risk assessment</b>	<ul style="list-style-type: none"> <li>– Lack of implementation of the process established by the audit firm to obtain <b>authorisation from the Operations Department</b>, when the <b>scheduled hours of the engagement</b> exceed the hours determined in the policies of the audit firm.</li> <li>– Lack of existence of an <b>information flow process with the Operations Department</b> to reasonably ensure, before accepting or continuing with an audit engagement, the availability of quality control reviewers with objectivity, technical qualification, experience and time necessary to carry out the quality control review of those audit engagemetns in which it is required.</li> </ul>
			<b>Audit client risk assessment</b>	Lack of <b>consideration as a risk factor</b> due to the existence of a <b>high money laundering risk</b> .
2	1	<b>Acceptance and Continuance of Audit Engagements</b>	<b>Assignment of quality control reviewers</b>	Lack of <b>preventive controls that ensure that quality control reviews</b> are carried out provided that the assumptions foreseen in the quality control policies of the audit firm are met

No. of audit firms	No. of findings	Element of the System of Quality Control	FINDINGS RELATED TO THE REVIEWED ELEMENTS OF THE SYSTEM OF QUALITY CONTROL	
1	4	<b>Ethical Requirements</b>	<b>Independence policies</b>	<b>Lack of full adaptation of the independence policies and procedures</b> of the audit firm to the independence requirements applicable in Spain.
			<b>Methodology</b> on documentation of work papers	<ul style="list-style-type: none"> <li>– Lack of <b>documentation in the work papers</b> of the <b>evaluation carried out</b> regarding <b>situations or services that could pose a threat to independence</b>.</li> <li>– Lack of evaluation of whether the <b>provision of a valuation service to an entity</b>, whose audit engagements were included in the scope of the inspection, <b>which involves the evaluation of significant amounts</b> and implies a <b>significant degree of subjectivity, would suppose the incompatibility of the audit firm to perform the audit of said engagements</b>.</li> </ul>
			<b>Acceptance process for non-audit services</b>	In 44% of the <b>services other than audit services</b> , selected by the ICAC inspection, their <b>acceptance process</b> is subsequent to the signing of the contract for said services, so this process <b>does not reasonably ensure that these services are evaluated before being provided</b> or that the partners of the audit commission of the entity hiring such services, or entity linked to the entities hiring such services, can evaluate the threats and, where appropriate, safeguard the independence, before the different non-audit services are rendered.
2	3	<b>Human Resources</b>	<b>Audit Hours</b>	Findings in the <b>traceability and reliability of the hours incurred in each audit engagement</b> , and declared to the ICAC.
			<b>Performance evaluation</b> in the execution of audit engagements	Lack of information on the <b>measurement of quality indicators and their influence on the evaluation</b> of performance quality in the execution of audit work. Influence, in the evaluation of performance and remunerations, of quality indicators in the execution of audit engagements.
			<b>Staff Remuneration</b>	There is a lack of information on the <b>influence of performance evaluations</b> in the execution of audit engagements, in the remuneration of staff participating in the performance of audit work, including partners.
1	4	<b>Human Resources</b>	<b>Hours to carry out an audit engagement</b>	Lack of adequate policies and procedures implemented to <b>estimate</b> the number of <b>hours needed by different professionals to carry out audit work</b> .
			<b>Workload</b>	Lack of adequate and implemented policies and procedures for the <b>assignment and control of the workload of partners, directors and managers</b> , taking into account the risk of the audit engagements and all other activities or tasks performed.
			<b>Training</b>	Lack of policies that require <b>specific mandatory training</b> for the performance of <b>quality control reviews of audit engagement</b> .
			<b>Promotion</b>	Lack of documentation of the process for the <b>promotion to capitalist partners</b> .

No. of audit firms	No. of findings	Element of the System of Quality Control	FINDINGS RELATED TO THE REVIEWED ELEMENTS OF THE SYSTEM OF QUALITY CONTROL		
2	4	<b>Performance of Audits</b>	<b>Review in the audit team.</b> Review efficacy		In 79% of the audit engagements reviewed, the review process in the audit team did not identify significant findings, which implied the lack of sufficient and adequate evidence on material items in the audited annual accounts.
			Quality control review	<b>Hours dedicated to the review</b>	Lack of justification of the sufficiency of hours used by the quality control reviewer regarding the audit, taking into account the total hours used in the reviewed audit engagements.
				<b>Review efficacy</b>	In 82% of the audit engagements reviewed by the ICAC inspection, the quality control review, prior to the issuance of the audit report, did not identify significant findings that implied the lack of sufficient and adequate evidence on material items of the audited annual accounts.
				<b>Review documentation</b>	In 50% of the sample of quality control review documentation of audits selected by the ICAC inspection, it is not possible to evidence the work done by the quality control reviewers, since the actual scope of the review, the matters dealt with or the criteria and judgments of the persons who carried out said review are not known. In addition, in some of the selected cases it was not possible to determine whether the review was carried out at the appropriate time because the review activities have been dated in the computer application after the issuance of the audit report or have not been signed by the appointed reviewer.
1	2	<b>Performance of Audits</b>	<b>Quality control review</b>	<b>Objectivity of the reviewers</b>	<ul style="list-style-type: none"> <li>– Lack of implementation of measures to preserve the objectivity of the reviewers when there are cross-reviews between the partners of audit engagements.</li> <li>– Lack of evaluation of the objectivity of the reviewer assigned to an engagement by a group of entities for which the reviewer provided a service other than an audit to an entity associated with the audited entity.</li> </ul>
1	1	<b>Performance of Audits</b>	<b>Compilation of the audit file</b>		Lack of compilation of the audit file, of 9% of the audit engagements, within the term established by the policies of the audit firm.
2	2	<b>Monitoring</b>	Policies for the <b>selection of audit engagements</b>		Lack of documentary evidence of the selection process carried out and, in particular, of the application of appropriate risk criteria
			Tracking of audit engagements. Review efficiency		Two of the audit engagements selected by the ICAC inspection for the review of the methodology applied in the performance of audits were also monitored, without the monitoring review identifying the significant findings identified by the ICAC inspection that caused the lack of an adequate and sufficient overview in relation to material items of the annual accounts.

No. of audit firms	No. of findings	Element of the System of Quality Control	FINDINGS RELATED TO THE REVIEWED ELEMENTS OF THE SYSTEM OF QUALITY CONTROL		
1	6	<b>Monitoring</b>	Monitoring of company policies and procedures	<b>Scope</b>	Failure to conduct monitoring on independence policies and procedures
				<b>Responsibilities</b>	Lack of participation of the person in charge of monitoring in the evaluation of the results and in the proposal of improvement plans.
				<b>Objectivity of the reviewer</b>	Lack of clarity of the delegation process and of the specific persons in which the monitoring functions of the audits signed by the person responsible for monitoring can be delegated.
				<b>Review documentation</b>	Failure to identify the selected <b>samples</b> and the selection criteria <b>of the policies and procedures</b> under review.
				<b>Documentation</b>	Failure to identify the specific issues reviewed, as well as the lack of identification of the criteria, judgments and procedures carried out by the reviewer, which support the findings that: the policies and procedures established by the audit firm are being applied in practice and are effective; and, in relation to the audit engagements, that the work done was appropriate.
			Improvement plans	The policies of the audit firm do not require, prior to the preparation of the improvement plans, the analysis of the causes that led to the significant findings detected in the monitoring.	

## ANNEX 3

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>	
ACCOUNTING ESTIMATES	Financial instruments (levels 2 and 3)	<b>Control tests and substantive tests</b> – Failure to carry out adequate tests to be able to conclude on the <b>integrity</b> of the assets and liabilities recorded at closure.	1 PIE	2
	Credit to clients	<b>Identification and assessment of material misstatement risks</b> – Lack of justification of the criteria taken into account <b>so as not to consider</b> the existence of a <b>significant risk</b> in relation to the assertion of the valuation of the credit risk coverage.	1 PIE	2
		<b>Auditor’s responses to material misstatement risks</b> – <b>Lack</b> of design and execution of <b>specific audit procedures to respond to the risk</b> identified by the auditors of material misstatement regarding <b>refinanced or restructured operations</b> .	1 PIE	2
		<b>Testing controls</b> – <b>Confidence in the evidence obtained in the previous audit</b> on some of the relevant controls, without having verified if there were significant changes in that control since the date of gathering said evidence.	1 PIE	2
		– Regarding 44% of the controls of the processes associated with the granting of certain types of loans, or with respect to <b>internal controls</b> in relation to the integrity and accuracy of the classification of loans as doubtful, for the purpose of specific coverage of credit risk, the <b>tests</b> carried out <b>are not capable of providing evidence of their operational effectiveness</b> .	2 PIE	4
		– Failure to conduct tests on the <b>relevant controls for the classification of normal risk</b> , in the necessary categories, <b>for the purposes of the generic coverage</b> of credit risk.	1 PIE	2
		<b>Substantive tests</b> – Lack of <b>representativeness of the sample</b> to conclude on the population with respect to the <b>stock item</b> , by excluding from the accredited population corresponding to certain sections with material recorded amounts.	1 PIE	2
		– Lack of <b>representativeness of the sample</b> to conclude on the population, for the item <b>valuation of the specific coverage</b> , by excluding from the population a material part of the risk registered at closure.	2 PIE	4
		– Failure to conduct substantive tests on the <b>assessment of risks</b> , for the purposes of valuation and presentation statements and report information.	1 PIE	2
		– Lack of individual <b>investigation</b> for each selected operation, for the purposes of the audit work, the <b>nature and causes of deviations</b> between the specific coverage of the credit risk recorded by the entity and that estimated by the auditors for the selected sample.	1 PIE	2
– Failure to conduct adequate tests to obtain audit evidence about the <b>generic coverage</b> of credit risk, by limiting the tests performed to the accounting information relation of the entity.	1 PIE	2		

Item of the financial statements/ accounting aspects		FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
ACCOUNTING ESTIMATES	Credit to clients	<b>Time to conduct audit tests</b> – For a relevant control for the items of integrity, existence and valuation, related to the monitoring of the pending operations, lack of <b>testing controls</b> for the period between the intermediate period and closure.	1 PIE	2
		– In relation to the existence of credit to clients, the auditors perform a <b>substantive circular test</b> <sup>13</sup> to borrowers <b>referring to the last day of June</b> of the audited year and a <b>non-substantive analytical test at the end of that year</b> .	1 PIE	2
	Provisions for litigation	<b>Identification and assessment of material misstatement risks</b> – Failure to <b>obtain knowledge of the relevant controls, with auditors having evaluated</b> the existence of a significant inherent risk.	1 PIE	2
		<b>Substantive tests</b> – Lack of evaluation of the <b>reliability of the data</b> and the <b>reasonability of the assumptions</b> , taken into account by the <b>management expert and by the management</b> for estimating the provision for claims.	1 PIE	2
		– Lack of <b>evaluation</b> of the adequacy of <b>reporting information</b> .	1 PIE	2
	Provisions for staff remuneration	<b>Identification and assessment of material misstatement risks</b> – Failure to obtain <b>knowledge of the estimate process of the provision</b> , in respect of which the auditors evaluated the existence of a fraud risk of for the accuracy item.	1 PIE	2
		<b>Substantive tests</b> – <b>Failure to conduct tests</b> to evaluate the reasonability of the provision.	1 PIE	2
	Stakholding in group companies	<b>Substantive tests</b> – Failure to conduct <b>tests to evaluate the recoverable amount</b> , considering, in addition, the constancy of theoretical values of the investees below the theoretical book value, without the entity having recorded any impairment.	1 PIE	2
		– Failure to conduct <b>tests to verify that the acquisition</b> , at a group company, of a share in another entity, has been made at <b>fair value</b> .	1 PIE	2
	Goodwill	<b>Identification and assessment of material misstatement risks</b> – Failure to obtain <b>knowledge about the way in which the management makes the estimates</b> and <b>obtains the data</b> , to perform the estimation, <b>the relevant controls, the assumptions</b> on which the estimates are based <b>and whether there have been changes since the previous year</b> , in relation to the item in respect of which the auditors evaluated the existence of a high material misstatement risk for the valuation item.	1 PIE	2
<b>Substantive tests</b> – Lack of evaluation of the <b>reasonability of the management assumptions</b> on which the income statements of the entities included in the 5-year business plan are based, or of the dividend distribution percentage hypothesis; lack of evidence on the <b>reasonability of the management expert's assumptions</b> to determine the value in use of each of the CGUs <sup>14</sup> .		1 PIE	2	



Item of the financial statements/ accounting aspects		FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
ACCOUNTING ESTIMATES	Mathematical provision	<b>Testing controls</b> – <b>Failure to conduct control tests</b> for the calculation and recording of the provision, although the auditors assessed the existence of a significant material misstatement risk and planned an audit strategy, in response to said risk, of conducting control tests and substantive tests.	1 PIE	1
		<b>Substantive tests</b> – <b>Failure to conduct tests on the reliability of the data</b> , including the guaranteed capital.	1 PIE	1
		<b>Time to conduct audit tests</b> – The <b>test on the formula for calculating</b> the mathematical provision is made referring to <b>the last day of September of the audited year</b> , without performing <b>any closing procedure</b> , taking into consideration, in addition, that the auditor assessed the existence of a fraud risk for the mathematical provision assessment item.	1 PIE	1
		<b>Analytical procedures that facilitate an overall conclusion</b> – <b>Lack of investigation of the very significant differences</b> as a result of the analytical test carried out by the auditors on the overall evolution of the technical account data, with respect to the mathematical provision, in order to determine whether these differences pose a material misstatement risk not previously detected by the auditors, in which case it would have required reviewing the material misstatement risk assessment by the auditors previously and consequently amending the planned audit procedures thereafter.	1 PIE	1
	Provisions for completion of works and for other commercial operations	<b>Identification and assessment of material misstatement risks</b> – Lack of <b>evaluation of the inherent control risk</b> , and, consequently, <b>material misstatement risk</b> .	1 Non-PIE	2, one of them from a PIE
		– Failure to obtain <b>knowledge of the entity's process for the estimation of provisions</b> for the completion of promotions or works, for other commercial operations due to burdensome contracts and other short-term provisions, with respect to which the auditors evaluated a fraud risk in the valuation item.	1 Non-PIE	2, one of them from a PIE
		<b>Substantive tests</b> – Failure to conduct tests that provide <b>sufficient and adequate evidence</b> to evaluate the reasonability of the provisions, in particular, for the items of integrity and valuation.	1 Non-PIE	2, one of them from a PIE
		– Failure to <b>carry out the planned procedures</b> in response to the assessed fraud risk.	1 Non-PIE	2, one of them from a PIE
	– Lack of evaluation of the adequacy of the report information.	1 Non-PIE	2, one of them from a PIE	

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
Assets held for sale and results from discontinued operations	<b>Identification and assessment of material misstatement risks</b> – Lack of <b>evaluation of the</b> inherent control risk, and, consequently, the <b>material misstatement risks</b> .	1 PIE	2
	<b>Substantive tests</b> – Lack of <b>analysis of the agreements for the transfer of a significant interest</b> in order to determine the date on which the risks and benefits inherent to the ownership are substantially transferred, the possible risks derived from said agreements, and lack of valuation of whether the agreed payment corresponds to the fair value of the interest.	1 PIE	2
Net amount of turnover <sup>15</sup>	<b>Identification and assessment of material misstatement risks</b> – Failure to <b>obtain knowledge of the process of the entity</b> and its result, <b>identification and assessment of material misstatement risks</b> .	1 Non-PIE	2, one of them from a PIE
	<b>Sampling</b> – <b>Insufficiency of the control samples</b> and the sample for substantive tests.	1 Non-PIE	2, one of them from a PIE
	<b>Testing controls</b> – Satisfactory conclusion about the operational efficiency of the controls of the processes associated with the transactions, <b>without proof of sufficient and adequate verifications</b> . Also, lack of <b>investigation of the nature and causes of deviations</b> of the tested controls.	1 Non-PIE	2, one of them from a PIE
	<b>Substantive tests</b> – Lack of verification of <b>compliance with the conditions for the application of the method criterion</b> of the <b>performance percentage</b> for the recognition of revenue.	1 Non-PIE	2, one of them from a PIE
	– Lack of evidence of the tests carried out by the audit team specialists who support their conclusion about <b>the integrity of the information contained in the worktables</b> used by the auditors as a starting point for their tests.	1 PIE	2
	– Lack of evidence on the <b>percentage of completion of works</b> , not including, <i>inter alia</i> , procedures on <b>expenses incurred and expenses to be incurred</b> .	1 Non-PIE	2, one of them from a PIE
	– Lack of <b>physical verification of the progress status</b> of the works.	1 PIE	2
	– <b>Failure to conduct tests</b> in order to conclude on the occurrence and accuracy of significant production income recorded as <b>executed work pending certification</b> , corresponding to income estimates due to judicial expectations related to claims or litigation filed by the audited entity.	1 PIE	2
	– Lack of evaluation of the reasonability of the <b>entity's estimate of the contingencies of the contracts</b> in order to estimate the expenses to be incurred.	1 PIE	1
– Lack of <b>evaluation of omitted information in the report</b> related to: the evaluation system of the production in the period, differentiating between certification and production; the criteria for assessment and description of the estimated method used for the executed work pending certification; with respect to the work in progress, the criteria, the bases and the systematics of its application for determining the valuation of direct costs, the allocation of indirect costs and depreciation and the criteria for allocating costs to general expenses; accounting criterion and estimation method and calculation of the risks covered.	1 Non-PIE	2, one of them from a PIE	

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
	<ul style="list-style-type: none"> <li>– Failure to conduct tests specifically aimed at verifying the reasonability of the <b>fair value of the construction services from concession agreements</b>. Conducting tests on the variations in the final work margins, in respect of which the auditors evaluated the existence of a significant material misstatement risk in the recognition of revenue, insufficient and not adequate to exclude from the sample population, projects for which significant income, lack of evaluation of the reasonability of the <b>work done by management experts</b> on the input price of the financial model of a project in respect of which the audited entity increased the final work margin significantly in the current year and in the previous year; lack of evaluation of the reasonability of the explanations provided by the entity on the variation of final work margins of other selected works, and lack of testing for the <b>period between the intermediate period and the closure</b>.</li> </ul>	1 PIE	1
	<ul style="list-style-type: none"> <li>– <b>Failure to conduct substantive tests</b> on the reliability<sup>16</sup> of the <b>data provided by the entity</b> to the auditor in an Excel file on the number and type of services provided in the audited year, taking into account, moreover, that the audit strategy of the auditors excluded performing control tests.</li> </ul>	1 Non-PIE	1
Customers for sales and services	<p><b>Substantive tests</b></p> <ul style="list-style-type: none"> <li>– Failure to request <b>external confirmations</b>, despite having designed the completion of this procedure, without stating the performance of other tests to obtain adequate and sufficient evidence on customer balances at closure.</li> <li>– Lack of adequate evidence on the items of <b>clients of the group companies</b>, as the tests are limited to the crossing of accounting information with the entities of the group.</li> </ul>	1 Non-PIE	2, one of them from a PIE
Financial margin (interest and similar income and interest and similar charges) and net commissions (fees received and fees paid)	<p><b>Testing controls</b></p> <ul style="list-style-type: none"> <li>– Conducting <b>tests</b>, regarding fees received and fees paid, <b>not susceptible to provide evidence on their operational efficiency</b> in 66.67% of the relevant controls identified.</li> <li>– Regarding <b>transactions with related parties</b>, related to fees received and paid, testing controls only for 20% of the controls identified by the auditors for said process, without justifying that the tested controls cover the material misstatement risks identified and valued by the auditors. Likewise, in 66.67% of the tested controls, the <b>tests carried out are not capable of providing evidence of their operational efficiency</b>.</li> </ul> <p><b>Analytical substantive tests</b></p> <ul style="list-style-type: none"> <li>– In relation to <b>interest and similar income</b>, as well as <b>interest and similar charges</b>, the definition of the auditor's <b>expectations</b> is made only on the basis of data from the entity's analytical accounts, without having made any other substantive evidence or evidence of controls, to respond to the fraud risk assessed by the auditor in all financial margin statements.</li> <li>– In relation to the <b>fees received and paid</b>, the definition of the <b>expectations of the auditor</b> is made based on management information of the audited entity, over which the auditors do not perform procedures to obtain reasonable assurance of their reliability. Hence, lack of <b>investigation of deviations</b> that exceed the established thresholds. The remaining substantive tests are performed on insufficient sample sizes and only for some commission concepts, for significant amounts, for which no substantive test is performed or the test performed is not capable of providing adequate and sufficient evidence by simply checking the accounting record in the counterparts that are related parties.</li> </ul>	1 PIE	2
	<ul style="list-style-type: none"> <li>– Regarding <b>transactions with related parties</b>, related to fees received and paid, testing controls only for 20% of the controls identified by the auditors for said process, without justifying that the tested controls cover the material misstatement risks identified and valued by the auditors. Likewise, in 66.67% of the tested controls, the <b>tests carried out are not capable of providing evidence of their operational efficiency</b>.</li> </ul>	1 PIE	2
	<p><b>Analytical substantive tests</b></p> <ul style="list-style-type: none"> <li>– In relation to <b>interest and similar income</b>, as well as <b>interest and similar charges</b>, the definition of the auditor's <b>expectations</b> is made only on the basis of data from the entity's analytical accounts, without having made any other substantive evidence or evidence of controls, to respond to the fraud risk assessed by the auditor in all financial margin statements.</li> </ul>	1 PIE	2
	<ul style="list-style-type: none"> <li>– In relation to the <b>fees received and paid</b>, the definition of the <b>expectations of the auditor</b> is made based on management information of the audited entity, over which the auditors do not perform procedures to obtain reasonable assurance of their reliability. Hence, lack of <b>investigation of deviations</b> that exceed the established thresholds. The remaining substantive tests are performed on insufficient sample sizes and only for some commission concepts, for significant amounts, for which no substantive test is performed or the test performed is not capable of providing adequate and sufficient evidence by simply checking the accounting record in the counterparts that are related parties.</li> </ul>	1 PIE	2

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
	<p><b>Other substantive tests</b></p> <ul style="list-style-type: none"> <li>– Failure to conduct substantive tests in response to the assessed fraud risk related to <b>transactions with related parties</b>, limiting the substantive test on fees received and paid made to the cross-checking of accounting information with the group entities.</li> </ul>	1 PIE	2
	<p><b>Time to conduct audit tests</b></p> <ul style="list-style-type: none"> <li>– The <b>substantive tests</b> carried out for the <b>fees paid</b> are made as of the last day of the month of September of the audited year, <b>without performing substantive tests until closure</b>.</li> </ul>	1 PIE	2
Procurement and suppliers	<p><b>Identification and assessment of material misstatement risks</b></p> <ul style="list-style-type: none"> <li>– Failure to obtain <b>knowledge of the process of the entity</b> and its result, <b>identification and assessment of material misstatement risks</b>.</li> </ul>	1 Non-PIE	2, one of them from a PIE
	<ul style="list-style-type: none"> <li>– Lack of constancy of the <b>criteria by which the controls identified</b> by the auditors as <b>relevant mitigate the risks</b> of the processes associated with these items.</li> </ul>	1 Non-PIE	2, one of them from a PIE
	<p><b>Testing controls</b></p> <ul style="list-style-type: none"> <li>– Satisfactory conclusion about the controls of the processes associated with the item, without <b>proof of sufficient and adequate verifications</b>.</li> </ul>	1 Non-PIE	2, one of them from a PIE
	<p><b>Substantive tests</b></p> <ul style="list-style-type: none"> <li>– <b>Insufficient tests on incurred costs</b>, limited to the verification of invoices of 6% of the total supplies, without proof that the determination of the sample size and the selection of the random sample was statistical.</li> </ul>	1 PIE	2
	<ul style="list-style-type: none"> <li>– Carrying out tests on the balance of <b>suppliers</b> at an <b>intermediate date</b>, based on <b>data provided by the audited entity without reconciliation with the accounting records</b>. In the absence of response from suppliers with a circular balance representing 90%, <b>insufficient alternative tests</b> performed by limiting the verification of an invoice from a supplier, which represents 12.5% of the balance on which confirmation from the suppliers was not received, and verification of the invoice and not, in addition, of its payment as the auditors had planned to do. The <b>procedures performed for the period between the intermediate date and the closing date</b> are limited to the existing suppliers at the intermediate date, without performing procedures to check if at the end of the year there were balances recorded corresponding to other suppliers that incorporated a material misstatement risk.</li> </ul>	1 PIE	2
	<ul style="list-style-type: none"> <li>– Lack of adequate evidence on the item of <b>suppliers of the group's companies</b>, when the tests are limited to confirmation requests from related parties or when accounting information is shared with the group's entities.</li> </ul>	1 Non-PIE	2, one of them from a PIE
Short and long-term financial liabilities	<p><b>Substantive tests</b></p> <ul style="list-style-type: none"> <li>– Failure to obtain adequate and sufficient evidence on <b>significant items for the purpose of calculating the financial obligations included in the loan agreements</b>, which non-compliance implies the lenders' option to declare payable in advance all the amounts owed by the audited entity, and has relevance to evaluate the capacity of the audited entity to continue as a operating company.</li> </ul>	1 PIE	2

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
	– Lack of <b>evaluation of the purpose and effect in the report</b> on the debt, as well as on the balance available at the closing of a credit year, of the fact that the audited entity on the closing date of the financial statements cancelled said balance and two days after closure, disposed of said amount again.	1 PIE	2
	– Lack of <b>evaluation of the occurrence of the fact informed in the report of compliance with the financial obligations contained in the loan contracts.</b>	1 PIE	2
Order accounts	<b>Identification and assessment of material misstatement risks</b> – Lack of <b>clear identification of the risks and controls that mitigate said risks</b> , in relation to the client intermediation process.	1 PIE	2
	– Lack of justification for the lack of assessment of the existence of a <b>fraud risk with respect to the integrity item</b> , instead of the stock item, for the fraud risk identified by the auditors of misappropriation of assets from customer portfolios.	1 PIE	2
	<b>Substantive tests</b> – Failure to conduct tests to respond to the risk in the integrity claim, as well as failure to conduct tests in response to the risk assessed by the fraud auditor in relation to the claim.	1 PIE	2
	<b>Testing controls</b> – Conducting <b>tests</b> , on managed portfolios and securities deposits, for 20% of the tested controls, <b>which cannot provide evidence of their operational efficiency.</b>	1 PIE	2
Consolidation process	<b>Identification and assessment of material misstatement risks</b> – Failure to obtain <b>knowledge of the consolidation process</b> , including the instructions issued by the group management to its components, the risks of the closing process of the consolidated financial statements and the controls established by the group management.	1 PIE	1
	– Failure to obtain <b>knowledge of the Group's process</b> and its result, <b>identification and assessment of material misstatement risks.</b>	1 PIE	1
	– Lack of <b>participation of the group auditor in the risk assessment</b> carried out by the auditors of <b>the significant components</b> , other than the auditor of group accounts.	1 PIE	1
	<b>Testing controls</b> – <b>Failure to conduct tests</b> of controls related to the risks associated with <b>external financing for part of the components</b> selected by the auditors.	1 PIE	1
	<b>Substantive tests</b> – Lack of verification that the <b>financial information of all the components</b> has been added in the consolidation process.	1 PIE	1
	– Failure to conduct tests on the adequacy of the process of homogenization of the financial information of the components.	1 PIE	1
	– Failure to conduct tests on the adequacy, integrity and accuracy of <b>consolidation adjustments and reclassifications.</b>	1 PIE	1

Item of the financial statements/ accounting aspects	FINDINGS RELATED TO AUDIT ENGAGEMENTS	No. and type of entities <sup>11</sup>	No. of Engagements <sup>12</sup>
	– Lack of evaluation of the <b>communications received from the component auditors</b> .	1 PIE	1
	– Lack of performance of planned procedures regarding visits to the components and <b>discussions with the auditors of the components</b> and discussions with the <b>management of the components</b> .	1 PIE	1
Ledger entries	<b>Substantive tests</b> – Lack of <b>verification of the adequacy of the selected ledger entries</b> , limiting the test to the reading of the concept that was included in the accounting notes, with auditors having planned the performance of substantive tests on ledger entries in response to the risk assessed by they misappropriation of assets and incorrect recognition of revenue and expenses.	1 PIE	2

<sup>11</sup> No. and type of entities in which the significant deficiency has been detected.

<sup>12</sup> No. of audit engagements which the significant deficiency affects.

<sup>13</sup> Confirmation request.

<sup>14</sup> Cash-Generating Units

<sup>15</sup> Includes, for the PIEs of sectors 2.3. Construction and 2.6 Engineering and others, the estimate of costs to be applied to said PIE, the criterion of the degree of completion of the construction contracts for the recognition of revenue from construction contracts.

<sup>16</sup> Integrity and accuracy.



