

anual report 2018

activity report



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Auditoría de Cuentas

Annual Report of Activities in 2018

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LETTER FROM THE CHAIRMAN – ANNUAL REPORT OF ACTIVITIES IN 2018

The year 2018 has been a period of intense activity for the Accounting and Auditing Institute “*Instituto de Contabilidad y Auditoría de Cuentas*” (hereinafter, ICAC). The fulfilment of its functions, always in order to reach higher levels of effectiveness and efficiency, has motivated the Institute to strive for excellence in all its areas of competence.

In **accounting** terms, much of the effort has been devoted to three *regulatory projects*, whose drafting and preparation have been carried out by different working groups and the Accounting Advisory Committee in 2018 and in previous years, by analysing and considering the comments received by the different users.

One of these projects has finally been approved by a Resolution dated March 5, 2019, of the Accounting and Auditing Institute (published in the BOE of March 11, 2019). This Resolution sets forth the criteria for the presentation of financial instruments and other accounting aspects related to the commercial regulation of capital companies.

The main objective of this standard is to develop the criteria for presentation of financial instruments in the balance sheet (stocks, shares, bonds, etc.) in accordance with the International Accounting Standards adopted by the European Union (IAS-EU 32) on this matter. Furthermore, a number of accounting implications of the commercial regulation of capital companies have been clarified. Namely, this standard is of special relevance while clarifying how Spanish companies must deal with different social contributions (according to their different nature and purpose); the operations with shares and interest of the entity or the parent company, the correction of errors, investment of income, capital increase and reduction operations, issuance of bonds, dissolution and liquidation, and structural modifications (such as merger and spin-off operations).

Thus, the Institute aims to grant our regulatory framework with the legal certainty required for the accounting record of these operations with undoubted importance in other areas, based on the different features that delimit the economic facts or operations.

The other two projects are aimed at adjusting our applicable accounting law regarding the formulation of the individual annual accounts of non-financial entities, to the International Financial Reporting Standards (IFRS-EU) as for financial instruments and recognition of income from contracts with customers, pursuant to the convergence approach with the International Financial Reporting Standards adopted by the European Union under Law 16/2007.

This adaptation process is conducted, after a thorough cost analysis, opportunity and implications, incorporating what is seen as an improvement for the financial information regulatory framework of non-financial entities, which are those that apply the aforementioned plan. Hence, the aim is

to maintain an adequate balance in the new information that is required, considering the reality and nature of the operations carried out by these entities, as well as the peculiarities of small and medium-sized entities and the aforementioned non-financial entities, based on the principles of proportionality, simplification and adequacy.

It is worth highlighting, as it contributes to the success of its content and the proposed solutions, the valuable participation of the members of the working groups created within the ICAC Accounting Advisory Committee in the drafting of these projects.

It is also worth mentioning the contribution of the Institute in relation to *non-financial information*, and in particular, the assistance provided in relation to the drafting of Law 11/2018, of December 28, which modifies the Commercial Code, the consolidated text of the Capital Companies Law approved by Royal Legislative Decree 1/2010, of July 2, and Law 22/2015, of July 20, on Auditing, regarding non-financial information and diversity.

During 2018, non-financial information statements have been published by the entities as per the aforementioned regulations, generally incorporated in the management reports, providing information so that users understand the situation, evolution and results of the entities. Mainly, regarding the impact of their activities on society in general, that is, those matters related to environmental, social, personnel, fight against corruption and respect for human rights.

In relation to **auditing**, the fiscal year 2018 is the second year in which Law 22/2015, of July 20, on Auditing has been fully applied. It should be stated that its ultimate objective is 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 audit activity. Therefore, greater communication and transparency requirements (in order to strengthen the confidence in the auditor's function) and independence (fundamental pillar in which the confidence in the audit report is placed) are necessary, among others, mainly for those who audit public interest entities, as well as for internal organisation and audit work.

In this sense, during this year, all audit reports issued on the annual accounts have followed the new model, which replaces the previous binary and retrospective report, with a more comprehensive, descriptive, explanatory, useful approach, which is adequate and consistent with the risk identification and assessment approach of the new audit standards.

In general, the new reports have contributed to improving communication with third parties, complementing and increasing trust in audited statements, increasing transparency, expanding the possibility of comparability and helping to better understand the work of auditors (thus improving the quality of the audits and the reports). This gives rise to a better understanding of the entity, the business and its context, and the issues that have been subject to greater information/discussion with the Management. These are all consistent with the public interest function that is legally bound to auditing. This has also been due to the considerable effort made by the auditors in understanding and disseminating the new regulatory requirements.

In this sense, the new audit report model should not be seen as a burden, but as an opportunity to raise awareness about the relevance and value of the audit activity and its service; and even as an additional item that in the medium term, will prevent a greater separation between auditors due to the size.

As for auditing standards, the effort has been focused on the continuation of the processing of the *Draft Regulations for the development of the aforementioned Audit Law*, with the ultimate purpose of providing legal certainty to the application of the standard that regulates the auditing activity, by specifying the scope of issues regarding which doubts had been raised and making it possible for the full application of EU regulations and Law 22/2015, of July 20, on Auditing.

Furthermore, in relation to both areas, it is worth highlighting the effort employed in the *response to queries* and the preparation of mandatory reports regarding standards set forth by other Public Administration bodies or other Public Institutions, which has maintained a rhythm similar to previous years.

As in previous years, the report pays special attention, due to legal and imperative reasons, to the general results and conclusions reached in the development of the *inspections carried out on the internal quality control systems of the auditors and audit firms*. The ICAC, through its inspections, aims to promote quality improvement in the performance of the audit activity, based on periodic and preventive activities.

Due to our commitment to this objective, taking into account our limited resources, and additional investigations that have demanded a greater use of resources than originally planned, two inspections have been conducted during the year, one of them having been completed in the first quarter of 2019.

As for the previous year, there has been a decrease in the number of audit engagements in which significant findings have been detected, which could lead to an improvement in the quality of the work. However, according to the result of the inspections carried out in recent years, the number and importance of findings in relation to the internal quality control systems and procedures of the audited firms remains high; so they have to continue being reinforced. A culture should be promoted in which ethics and quality criteria prevail and the service of public interest that is performed, above any business consideration or others.

Notwithstanding, the number of inspections carried out and the scope of the actions carried out prevents extrapolating any conclusion about the quality of the audit as a whole, although it is true that the nature of detected findings are very similar to those reported by the audit supervisory authorities of nearby countries.

As in the previous year, there is still a great deal of aggregate information that has an actual constructive purpose for the improvement of the audit, consistent with an approach that could be deemed proactive and preventive.

Conversely, research activities have increased, as well as those carried out in collaboration with Audit Associations stand out, which have been performed in order to verify the degree of compliance with the requirements regarding the proper utilisation of resources and jobs proportionate to the complexity of the audit work to be carried out, the obligation to pursue continuing education, and the completion and publication of the annual transparency report by auditors of public interest entities. These aspects serve to strengthen the quality of audits, in order to protect the public interest function. Because of these actions, there is a need for the auditors to establish effective measures to comply with the obligation to pursue and accredit the minimum required training as well as to improve the dissemination of the annual transparency report pursuant to the commitment of transparency and public interest legally assigned thereto.

Regarding the *disciplinary activities* carried out by the ICAC during 2018, an evolution similar to that of previous years has been maintained, in terms of the nature of the main breaches that have been evidenced. Similarly, the activity of the Institute in relation to the obligation of auditors to pursue *training, both prior and continued*, has presented levels similar to those of previous years. It is worth mentioning the increase in the number of approvals of theoretical teaching programs for access to the Official Register of Auditors.

Moreover, the modernisation process that is being pursued for a full electronic management from 2018 must be highlighted, which improves accessibility and communications with the auditors and different users. Despite the shortage of personal resources, significant progress has been made in compliance with the requisites that the standard requires in terms of electronic administration.

With regard to the two areas in which the ICAC develops its activity, the report describes the main advances or participations in the *international forums* in which the Institute participates.

Hence, in accounting terms, 2018 is the second year in which the ICAC has had an active participation in the activity of EFRAG (European Financial Reporting Advisory Group), which will undoubtedly allow us to contribute to our country in a more direct manner in the development and promotion of European opinions in the field of financial economic information. The International Accounting Standards Board (IASB) of the IFAC (International Federation of Accountants) shall adequately consider these valuations, since their inception, in the process of drafting international financial reporting standards. The accounting convergence strategy towards these standards that is followed in Spain, based on a critical analysis of European regulations, will enable this task to be tackled with solvency and will undoubtedly contribute to enriching the debate on the new pronouncements that are being adopted internationally. A proof of our commitment is that the current Deputy General Director of Standardization and Accounting Technique was appointed as member of the governing body of EFRAG for the first time.

In terms of auditing, as in previous years, maximum attention was given to collaboration with supervisory authorities through the Committee of European Auditing Oversight Bodies (CEAOB) and IFIAR (International Forum of Independent Audit regulators). Such participation, as an effective and operational mechanism for exchanging information, contributes to a greater soundness of audit oversight in Spain, which in turn reverts to an improvement in the quality of audits and, consequently, of the audited information and in a better protection of those parties interested in their decision making process.

By looking into the **future**, we have important challenges that must be addressed and should guide the potential strategic lines of the Institute.

Thus, in accounting terms, it is necessary to foster and consolidate the system of an adaptation approach for accounting standards to match international financial reporting standards, with a critical analysis of potential implications and opportunities, and everything that implies an improvement of the regulatory framework for financial information applicable to non-financial entities, by using simplification, adequacy and proportionality criteria as guidelines, as well as the reality of the operations performed by the entities that apply the aforementioned framework. Likewise, the international accounting standardization process must be an additional contribution.

In auditing terms, the Institute's actions must be aimed at addressing the following strategic lines defined in a long-term temporary approach, to the extent that the available resources allow so,

with the ultimate purpose of protecting the public interest related to this activity, represented by the users of the economic-financial information, including investors.

Firstly, it is necessary to prioritise quality improvement through preventive and regular supervision; so that it is timely and recurring for all auditors of public interest entities, and periodic in the medium term for other auditors, with the ultimate goal of improving the quality of audits in Spain as a whole.

Secondly, trust and transparency must be reinforced in those who perform the audits and strengthen the audit value; so that it is possible to better understand the commitment and the role played by auditors (especially those who audit public interest entities), whilst facilitating and helping users in their decision-making process.

Thirdly, competitiveness in the audit market should be promoted; by improving the methodologies of all auditors, to reduce the gap between auditors and eliminate growth barriers to smaller auditors.

The attainment of these strategic lines would allow complying with the public interest function, with society in general, by reinforcing internal and international confidence on the reliability and quality of audits and financial economic information audited in Spain, which affects the image and solvency of its economy.

In this sense, the Institute's plan of actions for this year and subsequent years should be set by keeping in mind the temporal focus of these strategic lines as well as the availability of resources. Its consolidation greatly depends on the effective performance of those who exercise the auditing activity.

Hence, auditors must continue adapting their organisation to the new regulatory standards, contributing to strengthen the audit's role in terms of the greater value assigned to the financial economic information that is audited, and taking advantage of the opportunity offered by the new audit report model. Conversely, auditors should not miss the opportunity to seek collaboration formulas that allow them to face a complex environment (including the technological environment), subject to many changes, which affects both the auditor and the audited entity; so that it is possible to overcome the expansion difficulties of smaller auditors.

As aforementioned, given the current technological challenge, the challenges related to massive data processing and computer security tools are of particular importance, since technological advances will bring opportunities to improve the efficiency of audit processes. Thus, more time will be spent on judgment matters.

Only by executing these strategic lines, will enable us to confront these challenges and ensure oversight, will make it possible to strengthen the value of the audit. This will contribute to grant reliability and credibility to the audited information, and improve the internal control systems of the entity (including the detection and prevention of inaccuracies), with the consequent positive effect on the decision-making process, on the functioning of the economy and on greater protection of users.

In this regard, the Institute has, across all its areas of expertise, a professional team with a great vocational dedication to service and a deep commitment to public function. This is always a great

starting point to overcome any challenges. In recognition of our staff's commitment and effort, I would like to express my most sincere gratitude.

This Report describes in a detailed manner the work performed by the ICAC staff in 2018, in the development of their audit supervisory skills and accounting regulations.

Madrid, June 2019

ENRIQUE RUBIO HERRERA
*Chairman of the Accounting
and Auditing Institute (ICAC)*

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EXECUTIVE SUMMARY- 2018 REPORT

The Accounting and Auditing Institute – “*Instituto de Contabilidad y Auditoria de Cuentas*” has developed its activity during 2018 in relation to the different functions under its scope. Thus:

Accounting.

- In accounting terms, during this fiscal year, different *regulatory projects* of unquestionable importance that have been pursued by the different working groups and the Accounting Advisory Committee in recent years, have been published in a public bidding process. The comments received by the different users in such regard have been analysed and considered. As in previous years, much of this effort has been devoted to its preparation:

(i) The draft Royal Decree amending Royal Decree 1514/2007, of November 16, which approves the General Accounting Plan (and other standards), which aligns the convergence approach with the International Financial Reporting Standards adopted by the European Union as per Law 16/2007, adjusts our applicable accounting framework in the formulation of the individual annual accounts of non-financial entities, IFRS-EU 9 and 15, in terms of financial instruments and revenue recognition from contracts with customers.

Such draft adapts two very relevant standards approved in accounting matters, incorporating what is an improvement for the regulatory framework of financial information of non-financial entities, which are those that apply the aforementioned plan. Thus, the aim is to maintain an adequate balance in the new information considering the reality and nature of the operations carried out by these entities, as well as the peculiarities of small and medium-sized entities and the aforementioned non-financial entities, based on the principles of proportionality, simplification and adaptation.

(ii) In development and as a complement to the previous paragraph, the draft Resolution of the Accounting and Auditing Institute that sets out registration, valuation and preparation standards of annual accounts for revenue recognition from the delivery of goods and the provision of services.

(iii) 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 capital companies. The main objective of this standard is to develop the presentation criteria in the balance sheet of financial instruments (stocks, shares, bonds, etc.) in line with the International Accounting Standards adopted by the European Union (IAS-EU 32) on this matter. In addition, mainly based on the aforementioned criteria, numerous accounting implications of the commercial regulation of capital companies are clarified.

Therefore, the Institute seeks to provide legal certainty in the application of accounting regulations.

Likewise, in relation to *non-financial information*, the ICAC has actively contributed to Law 11/2018, of December 28, which amends the Commercial Code, the consolidated text of the Capital Companies Law approved by Royal Legislative Decree 1/2010, of July 2, and Law 22/2015, of July 20, on Auditing, regarding non-financial information and diversity, which completes and complements the incorporation of EU regulations into the Spanish legal system, which started with the approval of Royal Decree 18/2017, of November 24.

- In addition, the active and growing participation in the *international forums* in which the Institute participates stands out, in particular, in the activity of the EFRAG (European Financial Reporting Advisory Group).
- Considerable efforts have also been devoted to the *response to queries* made on the accounting treatment of specific situations and the preparation of mandatory reports regarding the standards prepared by other Public Administration bodies or other Public Institutions.

Auditing.

- In relation to auditing, the processing of the *Draft Regulation for the development of the Audit Law* has continued during this year. In compliance with the legal authorisation contained in said text and with the ultimate purpose of providing legal certainty to the application of regulatory standards for the auditing activity, the scope of issues regarding which doubts had been raised is specified, making it possible to fully apply EU regulations and Law 22/2015, of July 20, on Auditing.

The said draft has been published during a public bidding process in 2018, and efforts have been dedicated to analyse the different comments received, mainly from Associations representing auditors in Spain (Institute of Chartered Accountants of Spain (ICJCE) and the General Council of Economists of Spain (CES)).

Moreover, the other actions related to the auditing regulation have maintained a similar rhythm to that of previous years, highlighting the volume of *queries on specific aspects of the application of auditing regulations*.

- During 2018, two inspections were conducted on two audit firms of public interest entities, although one of them was completed in the first quarter of 2019.

These inspections have been undertaken and comprised different items of the quality control system, by reviewing certain working areas corresponding to audit work selected in accordance with the risk criteria.

A great number of quality control policies and procedures has been reinforced up to this date. However, with respect to the last inspection, the number and importance of findings detected in relation to the internal quality control systems and procedures of the audited firms remains high; so they must be continuously reinforced.

Although the number of inspections and the scope of the actions prevents extrapolating any conclusions on the quality of the audit as a whole, inspections carried out in recent years continue to evidence the need to improve critical aspects of the different items of system of quality control. In such regard, although policies and procedures have been implemented, they are not effective enough to attain the objectives of the auditors' internal quality control standard in order to achieve and maintain the necessary quality in the performance of the audit work. Namely, in relation to the acceptance and continuance processes of audit engagements (which must be undertaken before the signing of the corresponding proposals); independence processes; performance evaluation processes in the performance of audit engagements; processes related to the completion of audit engagements to ensure that the necessary time is dedicated. In addition to processes that are aimed at implementing an objective monitoring of the system with the necessary authority and resources.

As for the last inspection, there has been a decrease in the number of audit engagements and areas in which significant findings have been detected, which could lead to an improvement in the quality of the work carried out by said company. However, there are still findings, which need to be corrected, in relation to the procedures for identifying and assessing risks of material misstatement, testing controls, as well as the nature and extent of substantive tests to adequately respond to risks of material misstatement. In this case, conclusions must be drawn that lead to an adequate and sufficient opinion for the issuance of audit reports to prevent similar findings in the future.

- During 2018, research activities have increased, either because of events that were not initially estimated and that have required the use of more resources than expected, or aimed at checking the degree of compliance with certain requirements in order to verify the quality of investigated audits. These requirements are those demanded in relation to the proper utilisation of resources and jobs according to the complexity of the audit work, the obligation to pursue continued training, and the completion and publication of the annual transparency report by the auditors of public interest entities. As a result of the actions carried out on the last two aspects, in collaboration with the Associations that represent auditors, there is a need for the auditors to set forth effective measures regarding their duty to pursue and accredit the minimum required training as well as to improve the dissemination of the annual transparency report.
- Regarding disciplinary activities conducted by the ICAC during 2018, consisting of disciplinary proceedings for breaches in audit processes and disciplinary proceedings for breaches of the obligation to submit annual accounts for filing at the Commercial Registry, an evolution similar to that of previous years has been maintained, regarding the nature of the main breaches that have been evidenced.
- Similarly, the activity of the Institute in relation to the training obligation that the auditors have, both prior and in a continuous manner, similar levels to those of previous years have also been recorded, highlighting the increase in the approval of theoretical teaching programs for access to the Official Register of Auditors.
- Furthermore, the report highlights the main participations held in the *international forums* in which the Institute participates, through the Committee of European Auditing Oversight Bodies (CEAOB) and the IFIAR (Internacional Forum of Independent Audit Regulators).

- Finally, the applications of the Official Register of Auditors have been modernized laying the foundations for a total electronic management as of 2018. Information has already been received electronically since 2015 in the statements of auditors and audit firms. Throughout the year, there have been changes in these statement models for improvement reasons both in the management of the register and in auditing oversight.

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.

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.

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 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.

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 Inspections and Investigations.

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 General of Inspections and Investigations* 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 2018 are reported in the following sections.

ACCOUNTING

The activities performed by the Sub-Directorate General of Accounting Technique and Standardisation in 2018 were as follows:

- a) 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.

During this fiscal year, and in compliance with Article 26.6 of Law 50/1997, of November 27, of the Government, and Article 133 of Law 39/2015, of October 1, of the Common Administrative Procedure of Public Administrations, the draft Royal Decree amending the General Accounting Plan approved by Royal Decree 1514/2007, of November 16, the General Accounting Plan for Small and Medium Enterprises approved by Royal Decree 1515/2007, of November 16, the Standards for the Formulation of Consolidated Annual Accounts approved by Royal Decree 1159/2010, of September 17, and the Adaptation Standards of the General Accounting Plan to non-profit entities approved by Royal Decree 1491/2011, of October 24. The interested parties had 20 business days at their disposal for compliance with the bidding process, from the day following the publication of this announcement, which took place on October 3, 2018.

The Institute has analysed all the comments made through a thorough study and reviewed each one of them, if appropriate, to include in this project those reflections that make room for an improvement in the relevance and reliability of the financial information of the entities that will apply this text.

- b)** 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 capital companies.

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.

During this fiscal year, and in compliance with Article 26.6 of Law 50/1997, of November 27, of the Government, and Article 133 of Law 39/2015, of October 1, of the Common Administrative Procedure of Public Administrations, the 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 capital companies. The interested parties had 15 business days at their disposal for compliance with the bidding process, from the day following the publication of this announcement, which took place on April 11, 2018.

The Institute has analysed all the comments made through a thorough study and reviewed each one of them, if appropriate, to include in this project those reflections that make room for an improvement in the relevance and reliability of the financial information de la información financiera de las entidades que aplicarán este texto.

- c)** Draft Resolution of the Accounting and Auditing Institute establishing registration, valuation and preparation standards of annual accounts for revenue recognition for the delivery of goods and the provision of services.

The resolution constitutes the regulatory development of the revenue recognition criteria for the delivery of goods and the provision of services.

The objectives of the standard can be summarized as follows:

- Obtain the necessary standardization between international accounting regulations and our accounting system in terms of revenue recognition for the delivery of goods and the provision of services and which was already taken as a reference to write the 14th registration and valuation standard (NRV). Revenue from sales and services of the General Accounting Plan.
- Improve the quality of financial information, particularly in terms of revenue recognition, these will be recognised when the company transfers control of the assets or services to customers for a sum that reflects the consideration to which the company expects to be entitled.

- Establish revenue recognition criteria whereby the rules that allow for the identification of the contract are established (including guidelines on the combination and modification of contracts). A main aspect of the method is undoubtedly the part dedicated to identifying the obligations to be complied with that are accrued explicitly or implicitly in the agreement.
- Finally, complete and standardize the accounting criteria to follow in the revenue recognition for the delivery of goods and provision of services in order to improve the regulatory system and increase legal certainty, following the scheme established by international regulations, notwithstanding the complexity of the operations currently undertaken by Spanish companies, which may address new interpretations in the near future.

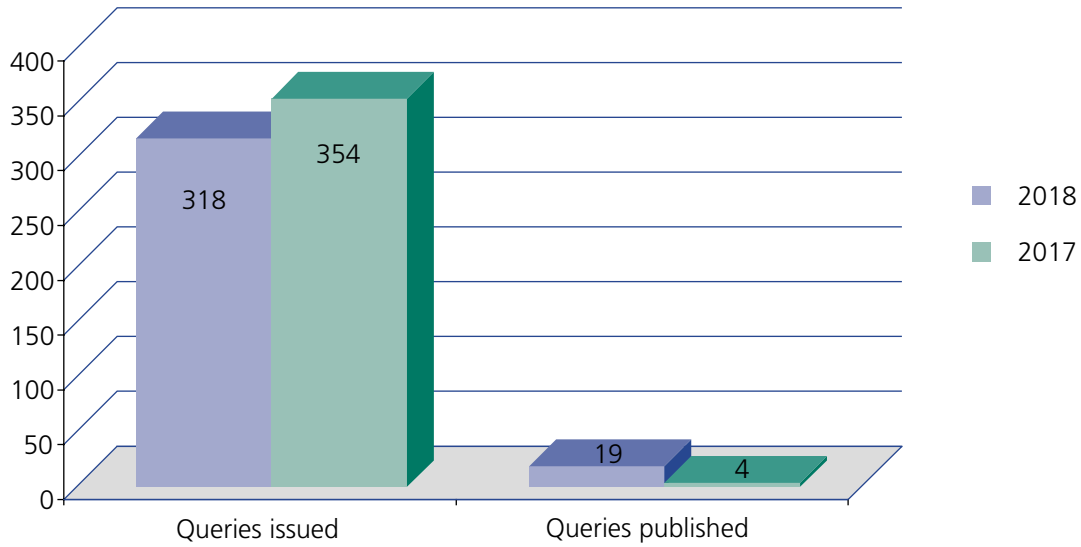
During this fiscal year, and in compliance with Article 26.6 of Law 50/1997, of November 27, of the Government, and Article 133 of Law 39/2015, of October 1, of the Common Administrative Procedure of Public Administrations, the draft Resolution of the Accounting and Auditing Institute establishing registration, valuation and preparation standards of annual accounts for revenue recognition regarding the delivery of goods and the provision of services. The interested parties had 20 business days at their disposal for compliance with the bidding process, from the day following the publication of this announcement, which took place on October 3, 2018.

The Institute has analysed all the comments made through a thorough study and reviewed each one of them, if appropriate, to include in this project those reflections that make room for an improvement in the relevance and reliability of the financial information of the entities that will apply this text.

- 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	2018	2017
Queries issued	318	354
Queries published	19	4

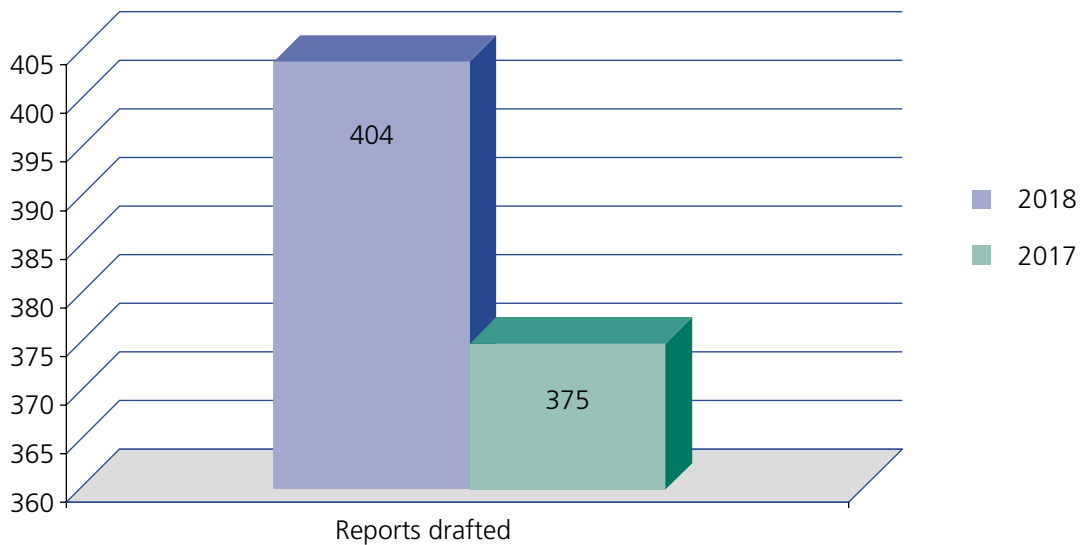
Queries



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	2018	2017
Reports drafted	404	375

Mandatory Reports



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 2018, 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 2018 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 Bombay 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.
 - Attendance and participation in meetings of the working group of accounting experts (ISAR) within UNCTAD (UN).
- 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 Commercial Registries.

- i)** Collaboration with the Directorate-General of Insurance and Pension Funds in the analysis of IFRS 17 - Insurance Contracts to establish the Spanish position in the debate on its future endorsement regarding the EFRAG and ARC.
- j)** Collaboration and attendance at accounting meetings from the Mixed Commission of the National Sport Council for transformation of clubs into sports corporations.
- k)** Collaboration with XBRL España by appointing a member of the Sub-Directorate to chair the PGC-2007 and PGCPYMES-2007 Taxonomy Subgroup, in addition to attending meetings on this topic.
- l)** Collaboration with XBRL España by appointing a member of the Sub-Directorate to chair the Regulations Taxonomy Subgroup to prepare consolidated annual accounts, in addition to attending meetings on this matter.
- m)** Collaboration with the Office of the State's Inspector General in relation to the response to queries made on the accounting treatment of specific situations.
- n)** Collaboration with the Directorate General of Taxation in relation to the response to queries made on the accounting treatment of specific situations.
- o)** Collaboration with the OECD in preparing questionnaires on the regulation and fair competition of the various sectors of activity through POLECO, which acted as coordinator.
- p)** Update and subsequent review of the text for dissemination and publication of the International Financial Reporting Standards adopted by the European Union.
- q)** Within the sphere of performing and promoting research, study, documentation, dissemination and publishing activities for the development and perfecting of accounting regulations.

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

- a)** Two meetings of the Accounting Advisory Committee were held in 2018 (five meetings in 2017).
- b)** Two meetings of the Accounting Board were held in 2018 (six meetings in 2017).

AUDITING

AUDIT REGULATIONS

Specific actions performed in 2018 by the Sub-Directorate General of Technical Audit Standards were the following.

This Sub-Directorate has had the collaboration of 13 staff members for the development of the corresponding functions and assignments, among which, the regulation of the auditing activity, the development of disciplinary activities, those related to the training of auditors and participation in international forums and groups, together with the Sub-Directorate General of Inspections and Investigations.

Development of regulatory projects

During 2018, the processing of the Draft Regulation of the Audit Law has continued, 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.

During this fiscal year and in compliance with Article 26.6 of Law 50/1997, of November 27, of the Government, and Article 133 of Law 39/2015, of October 1, of the Common Administrative Procedure of Public Administrations, the draft Royal Decree approving the Regulation that develops Law 22/2015, of July 20, on Auditing, the interested parties had 20 business days at their disposal for compliance with the bidding process, from the day following the publication of the Resolution of the Accounting and Auditing Institute, which took place on October 3, 2018. This deadline ended on November 2.

The comments received were analysed and, where appropriate, incorporated into the project for the continuation of their processing.

Other regulatory actions

- a) Preparation of reports on provisions drafted by other Public Administration bodies or other Public Institutions that affect or may affect the scope of the audit activity.
In the 2018 financial year, the number of reports on regulatory proposals or projects amounted to 21.
- 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	2018	2017
Queries issued	332	296
Queries published	9	10

The queries received and answered have addressed various aspects in the effective application of the regulatory standards of the accounting activity. The most frequent are the auditing obligation of certain entities, setting of fees of the auditors, independence, appointment of auditor and contracting deadlines and their revocation, etc. The queries published in the Official Gazette of this Institute, when considered of public interest, have addressed different aspects of the audit regime applicable to public interest entities - PIE- (PIE concept, rotation and transitory system according to Article 41 of the EU Regulation, concentration of fees or independence regime for the provision of non auditing services auditing services). In addition, the application of certain technical auditing standards adapted for application in Spain in specific cases such as (NIA-ES 701 "Communication of key audit matters in the audit report issued by an independent auditor") in the case of entities that are not of public interest. As well as NIA-ES 720 (revised) "The Auditor's Responsibilities Relating to Other Information", in relation to the non-financial information included in the management report or information on results and average period of payment to suppliers not included in the annual report of accounts in the case of balance sheet summary and SMEs.

- c) Review of the translation of ISA 250 (Revised) "Consideration of Laws and Regulations in an Audit of Financial Statements".
- d) Review of Exposure Draft, International Standard on Auditing (ISA) 315 "Identifying and Assessing risks of material misstatement", published by the IAASB submitted for consultation, for the purpose of issuing the corresponding report to be sent together with other competent authorities from other member states of the European Union (subgroup of CEAOB standards) or countries participating in international forums (IFIAR Standards Coordination Working Group).
- e) Review of Exposure Draft, International Standard on Auditing (ISA) 220 (Revised) "Quality management for an audit of financial statements"; Exposure Draft, International Standard on Quality Management 1 (ISQM1) (Revised), "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related

Services Engagements” and Exposure Draft, International Standard on Quality Management 2 (ISQM2), Engagement Quality Reviews” issued by the IAASB.

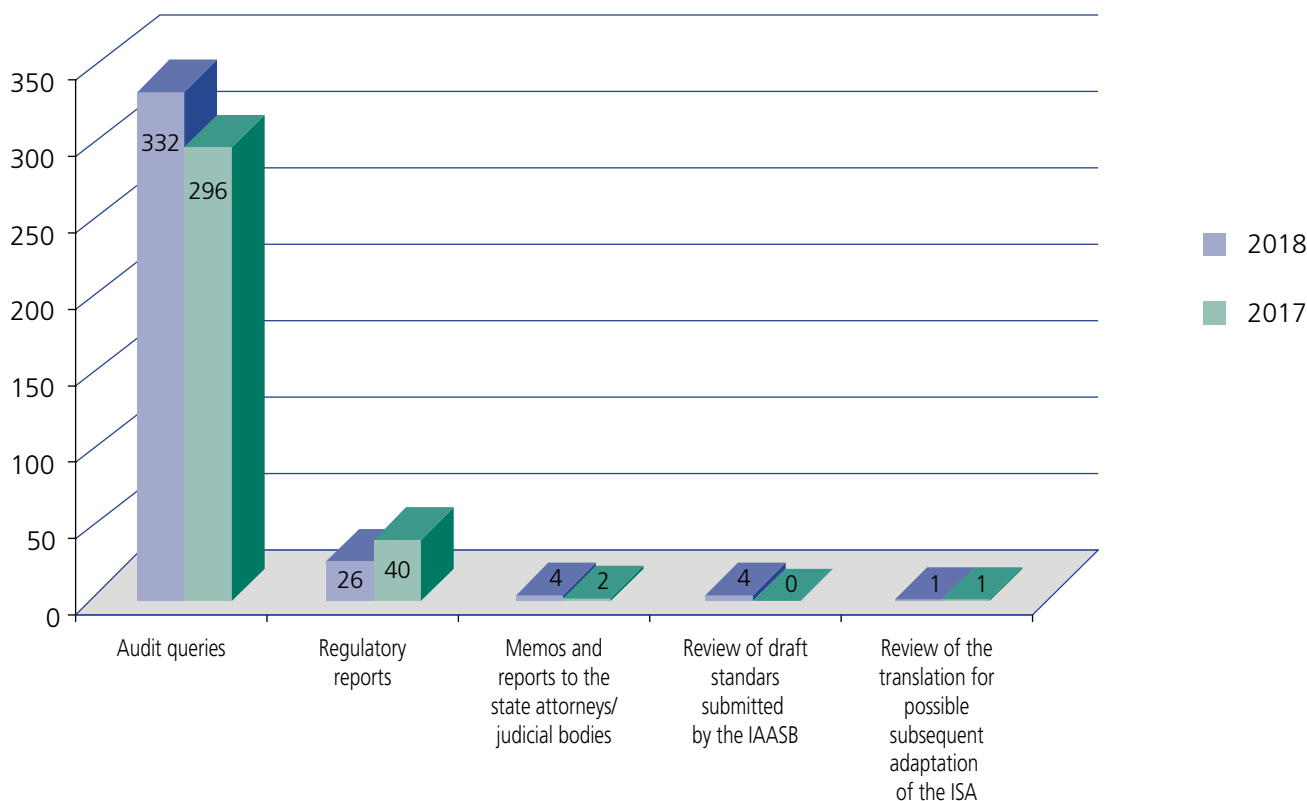
- f) Collaboration with the Director General of Registries and Notaries regarding the application of the regulatory standards for the treatment of specific situations.

While exercising the powers conferred, four meetings of the Audit Committee were held in 2018 (four meetings in 2017), which addressed the matters required by the applicable regulations.

The reports of regulatory projects also include the reports issued in relation to the Draft Royal Decree whereby the Regulation that develops Law 22/2015, of July 20, on Auditing, is approved.

REGULATORY ACTIONS REGARDING AUDITING	2018	2017
Audit queries	332	296
Regulatory reports	26	40
Memos and reports to the state attorneys/judicial bodies	4	2
Review of draft standards submitted by the IAASB	4	—
Review of the translation for possible subsequent adaptation of the ISA	1	1

Regulatory actions regarding auditing



AUDITOR TRAINING

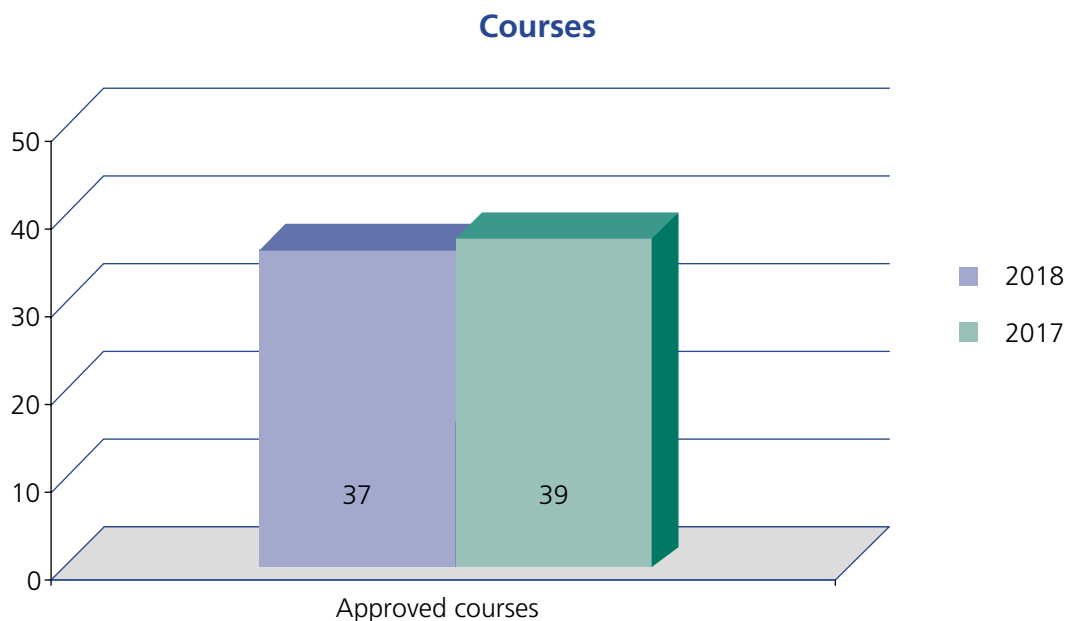
In accordance with audit activity legislation, the Sub-Directorate General of Technical Audit Standards is responsible for exercising the powers attributed to the ICAC pertaining to coordination and promotion of the selection, training and improvement of auditors.

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 2018, 37 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.
- 8 university qualifications, which are officially approved as theoretical educational programmes for access to the ROAC.
- 1 theoretical educational programme 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:

- 21 partial generic exemptions for bachelor’s degrees at the request of a university.
- 49 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.

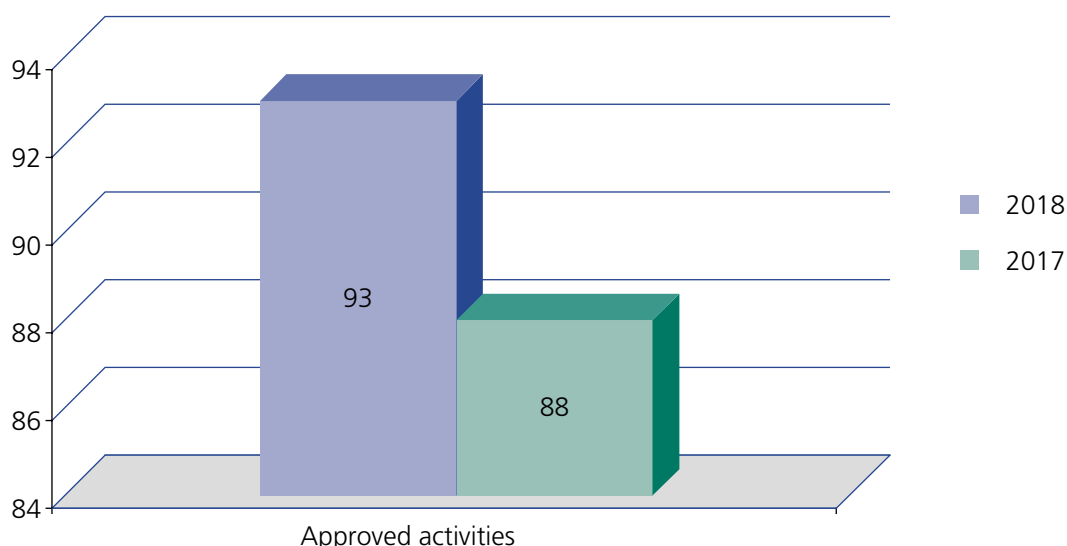
In the exercise of such authority, the ICAC is responsible for recognising the centres that are qualified to give ongoing training activities, as well as the determined activities to be conducted by certain entities or centres, in accordance with the conditions included in the aforementioned Resolution.

As for the promotion of continuing education, 93 activities were officially approved, 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 Resolution of October 29, 2012, which are computable for the purpose of continuing education of auditors.

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, 2 partial exemption requests have been processed and resolved of the obligation to take ongoing training courses for the reporting period comprised between October 1, 2016 and September 30, 2017.

Continuing Education



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 2018, the Sub-directorate General of Inspections and Investigations had 16 civil servants 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 findings 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 least every 3 years	PIE	Large companies	Assets >20.000.000€ Revenue >40.000.000€ Employees >250
At least 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 2018

The auditors that submitted a statement regarding, inter alia, the audit work performed during the period from 01/10/2016 to 30/09/2017, amounted to 2,210 auditors and audit firms (1,200 firms and 1,010 auditors).

Audit control activities were directly performed by the ICAC itself, except those related to investigation on compliance with the obligation of continuing education on the formal obligations of transparency reports, which are detailed below. These have been carried out with the assistance of reviewers of associations representing auditors, under the direction and supervision of ICAC civil servants.

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 2018, control actions focused on quality control inspections that have been concluded (together with another one that is pending completion) and investigations (including specific actions on certain audit aspects), amounting to a total of 201 actions, with the following details:

	2018	
	Actions conducted directly by the ICAC	Actions conducted with the assistance of associations representing auditors
Inspections	1	—
Investigations	114	87
TOTAL	115	87

a) Inspection actions

In 2018, one wide-ranging inspection was finalised¹ in relation to a large audit firm whose financial year ended in 2017, which audits Public Interest Entities (PIE), and fieldwork was initiated and completed. The provisional inspection report was issued at the end of the 2017, regarding another inspection of an audit firm that audits PIE.

The scope of the inspection held in 2018, consisted of the review of the internal control procedures corresponding to the six elements of a system of quality control, contemplated in the audit regulations, as well as the inspection of the working papers of certain areas relating to audit engagements.

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

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 inspection completed in 2018 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.

The scope of the actions, which have been performed, does not allow jumping into conclusions about the quality of the methodology used by all auditors in Spain.

a.1) Quality control policies and procedures

The inspection has identified significant findings² in elements of the system of quality control with the following details:

Elements of the System of Quality Control	No. of inspected firms with findings	No. of total findings
Leadership responsibilities for quality (i)	1	2
Acceptance and continuance of audit engagements and clients (ii)	1	4
Applicable ethical requirements (iii)	1	6
Human resources (iv)	1	6
Conducting audit engagements (v)	1	5
Monitoring (vi)	1	2

ANNEX 2 provides an overview of the main findings identified in the inspection. The main aspects of these findings are highlighted below³.

(i) The leadership responsibilities for quality

² In relation to audit firm policies and procedures, the existence of a significant finding is considered when the implementation of the internal policies, procedures, tools or controls established by the audit firm is not appropriate to reasonably assure compliance with the applicable requirements contained in the regulations governing the auditing activity, in accordance with the provisions of the Internal Quality Control Standard of auditors and audit firms published by ICAC Resolution of October 26, 2011. The deficiencies identified by the ICAC inspection do not exclude the possibility that there may be others not identified by the Inspection.

³ For information purposes, the objectives and purposes of each reviewed quality control item are described in the boxes.

Include the establishment of policies and procedures for the:

- Promotion of an internal culture, where the quality of the performance of audit engagements is recognised as essential.
- 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 auditors or audit firms, 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 the inspection, the party who is ultimately responsible for the system of quality control is responsible for the audit services line, and depends on the Chairman of said firm, without considering the measures, where appropriate, adopted to enforce the ultimate responsibility of the system of quality control with the necessary functional independence.

Conversely, said firm has established exceptions, approved by the ultimate responsible for system of quality control, to the cyclical inspection of audit engagements. These have resulted in the exclusion of said cyclical inspection of the audit engagements from which the aforementioned party signs the corresponding audit reports, as well as those of other parties in charge of the quality control system, which affects the objectivity and, therefore, effectiveness of follow-up measures, as well as the promotion of a culture of quality.

Likewise, the party ultimately responsible for the system of quality control is decisively involved both in the performance assessment of the persons authorised to sign audit reports, and in the determination of the staff remuneration, without stating the criteria and judgments that apply to the performance of these functions. This could affect the internal culture oriented to the promotion and recognition of quality in the performance of the audit work, above business criteria.

(ii) The process of acceptance and continuance of audit engagements and clients

It 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 findings refer to the evaluation of the following aspects:

- **Regarding the timing and completion of the continuance process of clients and audit engagements**, in 22% of the audited entities selected by the ICAC, the acceptance and continuance process has not attained its objective since the letters of the corresponding

audit engagements were signed before the aforementioned continuance process was completed.

- Regarding the approval process of continuance, of recurring audit engagements, in accordance with the policies of the audit firm, exceptions to their performance are permitted, which does not ensure compliance with the objectives of the acceptance and continuance process of clients or audit engagements required by regulations.

(iii) Compliance with the requirements related to the element “ethics” of the system of quality control, including those of Independence.

It 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, the following findings are highlighted:

- Independence policies, procedures and tools are not adapted to the independence requirements in force in Spain regarding the control of the following aspects:
 - Compliance with the prohibitions after the completion of the audit work⁴.
 - The perimeter of entities linked to the audited entities, by significant influence, in which the policies are classified as not significant, with the purpose of identifying and evaluating threats to independence by situations or services provided to these related entities.
 - The execution, in accordance with the independence requirements in force in Spain, of the independence confirmations of the auditors from foreign offices responding to corporate groups whose parent company is headquartered in Spain.
- In 20% of non-auditing services, regarding the sample selected by the ICAC, the acceptance process of said services is completed, through the approval process of the performance of said services, after the signature of engagements of non-auditing services. Hence, said process does not attain the objective of reasonably assuring that audit engagement teams evaluate whether the proposals of non-auditing services to be provided to audited entities or those linked to the same, may pose threats to independence that require the implementation of effective safeguard measures to reduce such threats to an accept-

⁴ Once the audit engagement has been completed, during the year following said completion (in the case of audits of entities other than those of public interest) or during the two years following said completion (in the case of the audit of public interest entities), the standard regulating the audit activity in Spain forbids the holding of significant financial interests, administrative or management positions, employment position in the audited entity or, where appropriate, in those bound by control relationships (subsidiaries, associated companies, controlled companies), by:

- the main auditors responsible for the audit engagement;
- the audit firm;
- other auditors with responsibility for oversight or management of the audit work and who can directly influence their assessment and final result;
- other auditors participating in the audit engagement, only in relation to the audited entity; and
- the partners of the audit firm and the auditors designated to perform audits on behalf of the audit firm that have not intervened or had the capacity to influence the audit engagement, unless they cease to have any relationship or interest with the audit company

ably low level, or, where appropriate, may pose incompatibilities or prohibitions and, therefore, such services should not be provided.

- Policies and procedures that are not robust enough to reasonably assure adequate analysis, considered individually and as a whole, of non-auditing services, all in order to identify threats to independence and assess their significance, for adopting the necessary safeguards to prevent independence from being compromised.

(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 finding in this area is the lack of clarity, in the following aspects:

- The measurement of quality indicators and their influence in the performance evaluation of audit engagements; and
- The influence that said performance evaluation has on remuneration of personnel that participates in the auditing activity.

Therefore, it has not been evidenced that the policies and procedures for performance evaluation and compensation ensure 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.

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, it was found that no effective procedures have been implemented for adequate monitoring of the workload of said staff, who participate in the the audit activity.

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.

(v) The policies and procedures for [performing audit 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.

In two of the three audit engagements inspected by the ICAC, 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.

Thus, 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.

Section a.2) describes the main findings detected 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:

- Furthermore, when dealing with a PIE audit engagement, the quality control review includes consideration of the following;
- 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.

Section a.2) describes the main findings, 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 quality control review, which demonstrates the ineffectiveness of such control in the critical areas of two out of three audit engagements inspected by the ICAC. With respect to one of the two audit engagements regarding an entity other than public interest entities, it has been shown that the quality control review was completed two months before the date of the audit report.

Moreover, it has been noted that in 33% of the documentation of the quality control reviews selected by the ICAC, the documentation of the reviewed works does not evidence which specific audit engagements said documentation refers to.

(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, in which findings have been found regarding adequate and sufficient evidence in major risk areas, were also subject to a monitoring review by the inspected audit firm, 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.

Similarly, and as aforementioned, the lack of procedures to preserve the objectivity of the person responsible for monitoring has been revealed, regarding the selection of audit engagements to be reviewed, namely, those audit reports signed by the person who is ultimately responsible for the quality control system and the responsible person who carries out audit tasks.

Evolution related to previous years: highlighted aspects

The scope of the inspection carried out in 2018, in regard to the review of audit engagements to verify the methodology for performing such works has been more limited than in 2017, due to the increase in investigation activities in 2018, although an additional inspection was practically completed at the end of December, whose final report was issued in the first quarter of 2019.

Likewise, the number of inspections carried out in each of these two years and the number of audit engagements included in its scope, is limited to draw conclusions about the quality of the audit in Spain in each of those two years.

Therefore, the comparability of the result of inspections in both years may not be representative of the evolution of the audit quality.

Notwithstanding, by comparing the result of the inspection completed in 2018 with the inspections completed in 2017, with regard to the policies and procedures for quality control, a similar level to 2017 is derived from findings in the audit firm procedures. In this sense, there are findings in very relevant processes of the six elements of the system of quality control: the ultimate responsibility of the quality control system; acceptance and continuance of relationships with clients and engagements; independence; human resources; completion of audit engagements; and follow-up.

This requires that the necessary measures be taken to reinforce or modify policies, procedures, processes and controls, so that the system of quality control meets the objectives established in the regulatory standards for the auditing activity.

A number of quality control policies and procedures have been formalized and reinforced up to this date. However, persistent findings have been observed in recent years in essential aspects of the different elements of the system of quality control. Although policies and procedures have been implemented, they are not effective enough to meet the objectives of the internal quality control standard for auditors in order to achieve and maintain the necessary quality in the performance of the audit work.

In this sense, a culture of quality must be promoted that, by taking into account that the audit activity serves the public interest, permits the pursuit of the following processes, despite all considerations:

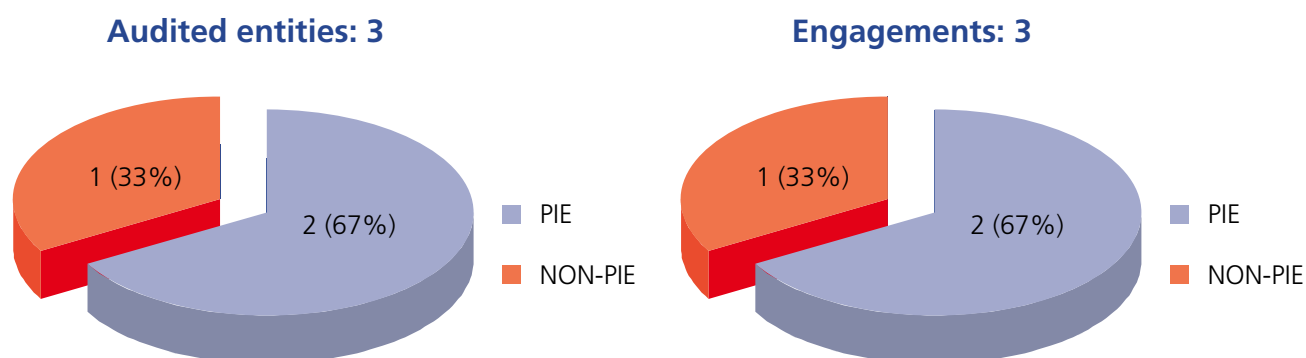
- **Acceptance and continuance** processes of audit engagements that are carried out before the signing of the corresponding service proposals, both audit and non-auditing services, and avoid the acceptance of audit engagements for which there are no sufficient and adequate resources;
- **Independence** processes that allow the identification of situations and services that may pose a threat to independence and evaluate their effect in a timely and appropriate manner in order to implement effective safeguards and which ensure that prohibitions or incompatibilities are not incurred or in situations where independence is compromised;
- **Performance evaluation processes in the execution of audit engagements and remuneration systems** in which said performance is appropriately measured with the quality criteria required by regulatory audit standards, in response to the public interest to which said activity serves;
- Processes related to the **completion of audit engagements** to ensure that the necessary time is dedicated to the execution, direction, review and oversight within the audit teams of each engagement, with special attention to the quality control review of the audit work, before the issuance of audit reports;

- Processes that **implement an objective follow-up** of the system, with the necessary authority, sufficient resources, competence and the skepticism necessary to detect inefficiencies in the system of quality control and propose the necessary improvements for the continuous improvement of said system.

By comparing the result of the inspection completed in 2018, with the previous inspection made to the same audit firm, the number or severity of the findings in some of the elements of the internal system of quality control has decreased. No substantial breaches have been detected regarding the requirements derived from the last inspection. However, efforts are still needed to improve the system of quality control policies and procedures, with respect to all the elements of said system, in order to attain the objectives for each element of the system of quality control established in the internal quality control standard for auditors and audit firms.

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

Regarding the inspection, 3 audit engagements corresponding to 3 entities were included.



With regard to the 3 inspected audit engagements corresponding to 3 entities, no significant findings⁵ (henceforth findings) have been identified in 1 engagement, corresponding to one PIE.

The findings that appear in the inspection reports issued in 2018⁶ 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.

It must be borne in mind that the findings found in 2 audit engagements 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

⁵ In relation to the audit work, the existence of a significant finding is considered when there is no documentary evidence that a relevant audit procedure has not been performed, or has not been performed sufficiently and adequately, in relation to balances, types of material transactions or information (significant) that justify the existence of adequate and sufficient evidence to support the audit opinion, in relation to a relevant assertion of the audited financial statements; as well as when there is a breach of independence requirements, or certain deficiencies in relation to the evaluation of threats to independence derived from certain services, facts or circumstances, and application of necessary safeguard measures.

⁶ These deficiencies do not exclude the possibility that there may be others not identified by the ICAC inspection.

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 (NIA-ES).

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

SECTOR	Nº PIE
Banks and savings banks	1
Pharmaceutical products and biotechnology	1
TOTAL	2

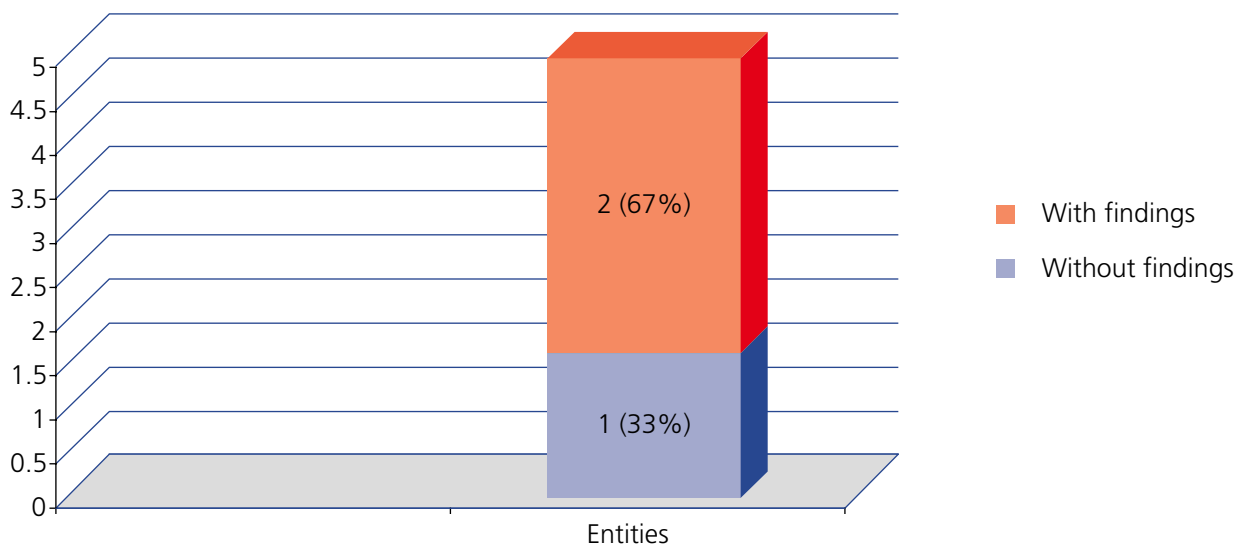
SECTOR	Nº Non-PIE
Telecommunications and others	1
TOTAL	1

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

WORKING AREAS	Nº PIE
Financial instruments	1
Loans to customers	1
Development	1
Revenue and trade receivables	1
Inventories	1
Supplies, external services and other payables	1
TOTAL	6

WORKING AREAS	Nº Non-PIE
Revenue and trade receivables	1
Fixed assets	1
TOTAL	2

The chart of the entities, where findings have been detected in audit engagements, 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	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
Financial instruments	1	—	—
Loans to customers	1	—	—
Development	1	1	3
Revenue	2	1	2
Trade receivables	2	1	2
Inventories	1	—	—
Supplies, external services and suppliers	1	—	—
Fixed assets	1	1	3
TOTAL			10

The number of findings, related to audit aspects, amounts to a total of 16, whose [more detailed description](#) is included in el [ANNEX 3](#):

Audit aspects	No. Entities with any significant findings in the audit of their Annual Accounts	No. Findings by items or aspects of the financial statements	
Identification and assessment of risks of material misstatement	1 PIE	1	Development
Testing controls-Nature	1 Non-PIE	1	Revenue
		1	Fixed assets
Testing controls - Omission	1 Non-PIE	1	Revenue
		1	Fixed assets
		1	Trade receivables
Substantive tests-Nature	1 PIE	2	Development
	1 Non-PIE	2	Revenue
		1	Trade receivables
Substantive tests-Sampling	1 Non-PIE	1	Fixed assets
		1	Revenue
Substantive tests - Omission	1 Non-PIE	2	Fixed assets
		1	Trade receivables
TOTAL		16	

No findings have been detected in the working areas included in the inspection of the review of the credit institution engagement (financial instruments and loans to customerst).

In relation to the audit of other PIE, findings have been detected in the tests carried out with respect to one of the seven items included in the scope of the inspection. Specifically, the finding refers to the development item and, in particular, due to the lack of identification and assessment of a risk of material misstatement, regarding the assertions of existence, accuracy and valuation and the lack of adequate audit tests regarding the estimation of the milestone from which the technical viability and economic success of the products are likely, which would determine the capitalization of the expenses incurred as of that date as amortized development from the marketing of the developed products.

The revenue and fixed assets items, corresponding to an entity other than PIEs, are the items for which the greatest number of findings have been detected in the tests performed by the auditors.

In such regard, specially for the revenue item, , it must be highlighted the lack of adequate and sufficient response to the risk of fraud identified by the auditors for the assertions of occurrence and accuracy of the income recognised. This is due to the application of substantive tests in general, only for the verification of the existence of an invoice and its collection. On the other hand, in said audit work, substantive tests are not conducted for the existential assertion of 85% of the balance at the end of the year of receivables for accrued and not invoiced income. This is without the performance of any substantive tests on said assertion for the balances at said date of receivables for invoiced income and without recording the criteria to consider reasonable the entity's criteria to register impairment due to credit risk when more than one year elapses from the expiration of the collection right.

In said engagement, there have been findings in the tests conducted in relation to fixed assets, both related to the sufficiency of the evidence for existence and accuracy assertions and for the assessment of fixed assets assertions.

Evolution regarding the previous year: highlighted aspects

The scope of the inspection carried out in 2018 has been more limited than in 2017, due to the utilisation of more resources for investigations in 2018, for reasons further explained.

Likewise, the number of inspections carried out in each of these two years and the number of audit engagements included in its scope, is limited to draw conclusions about the quality of the audit in Spain in each of those two years.

Therefore, the comparability of the result of inspections in both years may not be representative of the evolution of the audit quality.

Notwithstanding the comparison of the results of the inspections in these two years, there are no findings in the inspections completed in 2018 related to the timing of the testing controls.

Regarding scope of the inspection completed in 2018, not so many working areas related to accounting estimates have been included, as in the inspections carried out in 2017. In this regard, the lack of identification of significant findings in estimates related to financial instruments and impairment of loans to customers is highlighted in the credit institution that has been inspected.

The following table presents the comparison of inspection results, for common inspection areas in 2017 and 2018.

AUDIT WORKING AREA	2018		2017	
	Number of entities with audit findings	Total audited entities in the inspection scope	Number of entities with audit findings	Total audited entities in the inspection scope
Financial instruments	0	1	1	1
Loans to Customers	0	1	2	3
Revenue	1	2	4	7
Trade receivables	1	2	2	7
Inventories	0	1	0	1
Supplies and suppliers	0	1	2	2

However, findings have been revealed in 2018 in relation to the tests that have been conducted, regarding the accounting estimate of the active development item, as well as in relation to the revenue and trade receivables items, which bring to light the need of increasing the application of professional skepticism and the sufficient and adequate application of the rest of the requirements of the technical auditing standards in areas of special risk, because of the complexity, uncertainty or subjectivity involved in accounting estimates. This includes areas where which may be a risk of fraud, such as income, in order to obtain reasonable (high) assurance that the corresponding items and, consequently, the audited financial statements are free from material misstatements.

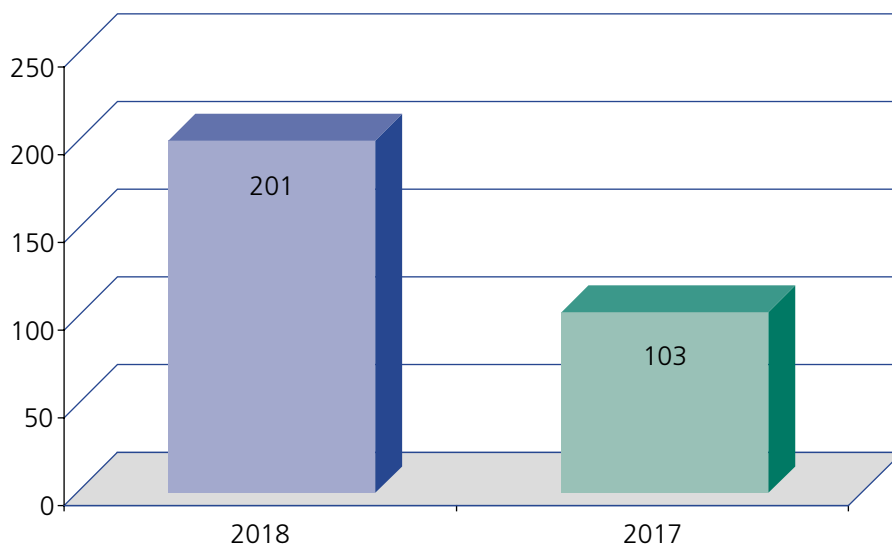
In this regard, inspections carried out in recent years continue to show the need to improve the procedures for identifying and assessing risks of material misstatement, testing controls, as well as the nature and extent of substantive tests to adequately respond to risks of material misstatement and draw conclusions that permit an adequate and sufficient opinion for the issuance of audit reports.

As for the comparison of the result of the inspection completed in 2018, with respect to the last inspection undertaken in said audit firm, there was a 33% reduction in the number of inspection engagements where at least a significant finding was detected.

b) Investigation actions

During 2018, 201 investigation actions were undertaken, which means 98 more actions than in 2017 (Δ 95.15%), of which 114 actions were carried out directly by the ICAC and 87 with the assistance of associations representing auditors, under the direction and supervision of ICAC.

Investigation actions



Most of the increase in investigation actions in 2018, compared to those undertaken in 2017, are due to actions to verify formal requirements of the transparency reports of auditors auditing public interest entities and actions to verify compliance with the minimum training requirements of practising auditors, both actions were carried out with the assistance of associations representing auditors. These actions were deemed necessary to strengthen the quality of audits, including those auditors who do not audit public interest entities, in order to protect the public interest function assigned to ICAC.

The origin of these actions was as follows:

Origin of the action	Nº Actions	Percentage of total actions
Complaints	90	44,78
Others	111	55,22
TOTAL	201	100,00

As for the 90 complaints, mainly related to the performance of audit works of non-PIEs, once analysed, 72 complaints were filed in 2018 (80%), as there were no possible indications of breaches with the standard that regulates the auditing activity, which could involve a breach for which statutes of limitation did not apply.

In relation to other 18 complaints, after their analysis, indications of breach were observed in three of them and investigation proceedings were initiated regarding 15 audit engagements for potential indications of breach. After this investigation, the proceedings were filed regarding one audit engagement and indications of breach were observed in 14 audit engagements (which constitutes 18.88% of the complaints received). The main indications of breaches are as follows:

Potential indications of breaches	N° 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	14
Potential lack of independence	2
Possible signature of audit reports by non-practising auditors	1
TOTAL	17

Similarly, eight audit engagements were verified regarding assistance to other Administrations in 2018. Statutes of limitation applied to the audit reports of said engagements. However, during the performance these actions, there have been indications of breach of 2 engagements for noncompliance with the obligation to preserve the corresponding audit documentation.

Eleven verification actions were also completed by ICAC in 2018, regarding entities that are part of the network. In such actions, indications of breaches were detected for substantially incorrect statements. Three direct verification actions were also conducted in order to verify compliance with the formal requirements of transparency reports issued by auditors auditing public interest entities, in which no indication of breach was found.

Moreover, the ICAC has conducted a direct investigation action of two audit engagements related to a public interest entity, having detected, in both of them, indications of serious breach due to possible noncompliance with Audit Standards that could have a significant impact on the work result and, consequently, on the audit report.

The ICAC action plan for 2018 included the performance of three actions, with the assistance of associations representing auditors, aimed at investigating the following aspects:

- Audit works with indicators of insufficient resources for its performance, with the quality required by the regulations governing the auditing activity.
- Compliance with the mandatory minimum training of practising auditors, for the period between 01/OCT/2016 and 30/SEP/2017.
- Formal requirements of the transparency reports corresponding to the financial year ended in 2017 of PIE auditors and audit firms.

Thus, three agreements were signed with the General Council of Economists in September 2018, one for each action, and two agreements with the Institute of Chartered Accountants of Spain, for the last two actions.

During the last quarter of 2018, management and oversight actions regarding the assistance work of the reviewers of said institutions were carried out, with the following actions under those contracts being completed in 2018:

CONCEPT	Total foreseen actions	Total actions completed in 2018
Training 01/10/2016 - 30/09/2017	114	20
Formal requirements of the Transparency Reports corresponding to 2017	82	67
Audit engagements	24	—
TOTAL	220	87

Regarding the 20 actions undertaken to verify the mandatory minimum training for the period between 01/OCT/2016 and 30/SEP/2017, completed in 2018, 11 actions (55%) were filed as no indications of possible breaches were detected. Indications of breach were found in nine actions (45%).

Regarding the 67 actions undertaken to verify formal requirements of the transparency reports, completed in 2018, no indication of breach was detected in any of them. However, findings were revealed in relation to the following aspects that require their correction, so that transparency reports meet information targets aimed at third parties:

CONCEPT	Number of auditors
Lack of information on the financial year corresponding to the annual accounts.	13
Legal structure and ownership of the firm.	20
Information on the audit network.	29
Structure of governance bodies.	34
Date of the last quality control.	5
Information related to internal quality control.	23
Information on the audit network.	29
Policies followed regarding continuing education.	8
Information on independence practices.	7
Staff rotation policies.	58
Remuneration bases of the partners.	29
Break down of information related to total turnover	45

The other actions, for which assistance of the Associations representing auditors has been contracted, are estimated to be completed during the first half of 2019.

The results of these actions do not necessarily correspond to those mentioned in the “Disciplinary actions” section of this Report.

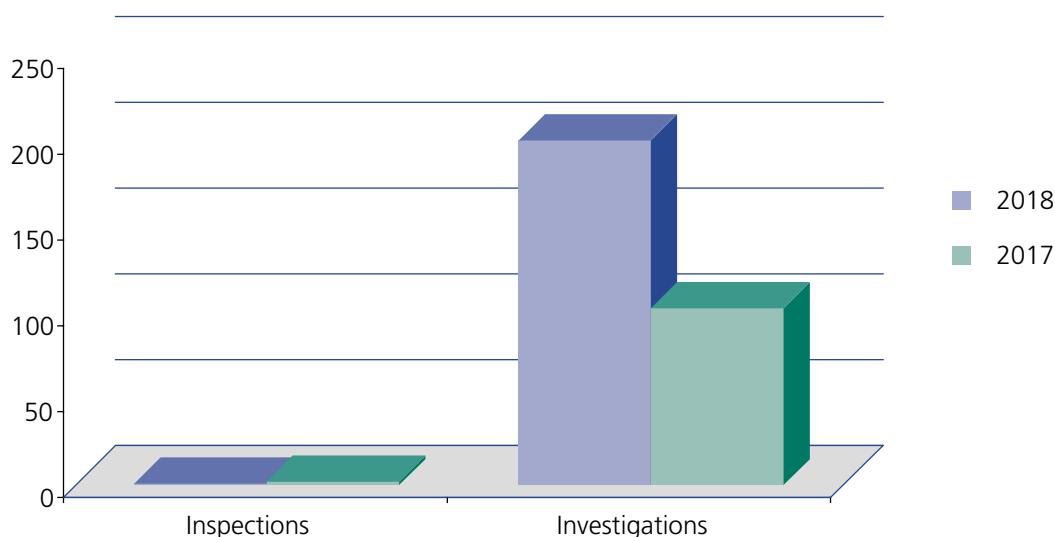
The following table summarizes the investigation actions and their result:

Origin of the action	N° Actions	No incidences	With findings that have to be improved	Indications of breaches
Complaints	90	73		17
Others	111	14	67	30
TOTAL	201	87	67	47
Percentage on total actions		43,28	33,33	23,38

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 Investigation in 2018, compared to financial year 2017:

	2018	2017
Inspections	1	2
Investigations	201	103
TOTAL	202	105



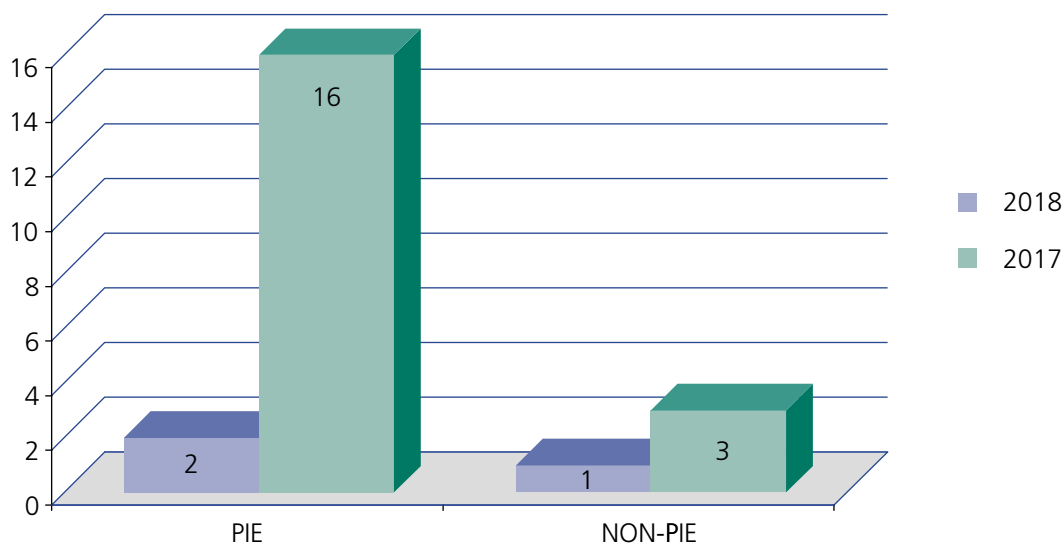
The comparison of inspection actions is as follows:

DIRECT INSPECTION ACTIONS	2018	2017
Comprehensive inspections of large audit firms that audit PIE	1	2
Colleges of Regulators	3	3
TOTAL	4	5

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

Number of audit engagements	2018	2017
PIE	2	16
NON-PIE	1	3
TOTAL	3	19

Number of audit engagements



In the investigations, 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, the oversight effort of the audit activity has focused the performance of investigations on non-PIE auditors in 2018. Although there have been two investigations on PIE engagements (1 credit institution and 1 insurance company), whose complexity and dimension has required a greater use of resources than was initially planned. This resulted in somewhat of a less comprehensive inspection than the one that was undertaken in 2017 and completed in 2018.

Considering the above data, in relation to direct actions, the increase is due to the greater effort in inspections. During 2018, additional resources were allocated to conduct investigations with the assistance of Associations representing the auditors.

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 civil servants, in terms of working hours, dedicated to the field work of inspections, 2 staff members dedicated to investigations, 2 assigned to management functions and 1 assigned to administrative tasks. In addition, according to the LAC, during financial year 2018, said Subdirectorate has had five specialists, during part of the year, equivalent to four 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.

DISCIPLINARY ACTIVITIES

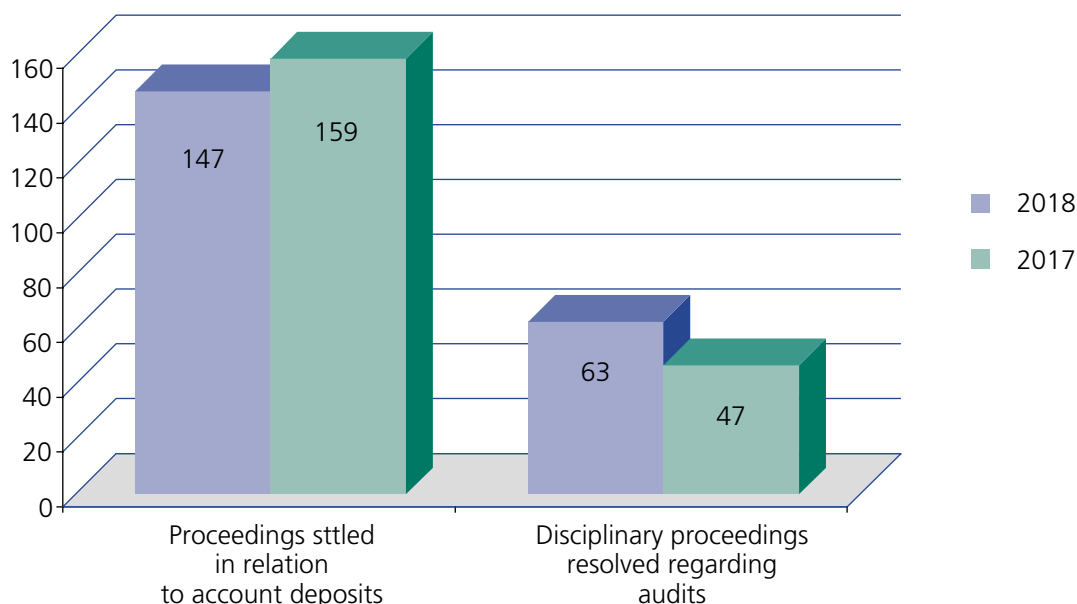
The following specific actions were performed in 2018 by the Sub-Directorate General of Technical Audit Standards:

- a) Disciplinary administrative proceedings due to auditing breaches were processed. These included the participation of 10 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. During this fiscal year, two staff members participated in the development of these tasks.
- b) Disciplinary administrative proceedings due to breaches of the obligation to present annual accounts for filing at the Commercial Registry were processed, including the participation of two 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. During this fiscal year, a staff member has been reassigned to the processing of the disciplinary proceedings for audit breaches.

The number of resolved disciplinary proceedings regarding audits and the filing of accounts amounted to 63 and 147 respectively, according to the following details:

DISCIPLINARY ACTIONS	2018	2017
Proceedings settled in relation to account deposits	147	159
Disciplinary proceedings resolved regarding audits	63	47

Disciplinary actions



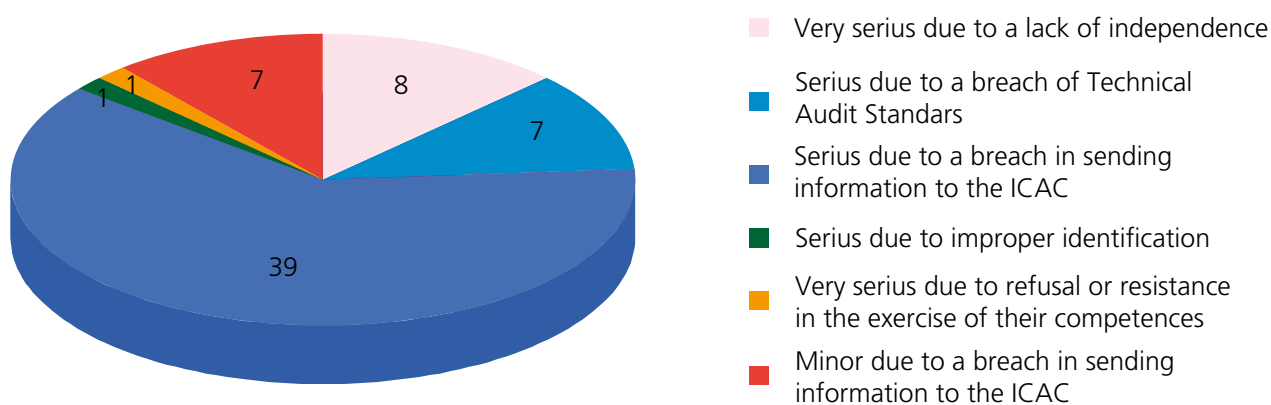
The proceedings that were resolved regarding audits were declared to be breaches of audit regulations in different levels (such as very serious, serious and minor breaches), according to the following details:

The number of breaches is smaller than the number of disciplinary proceedings since there are several proceedings that result in a single continuous breach.

Disciplinary proceedings settled in relation to auditing	N° of cases filed 2018	N° of cases filed 2017
Very serious due to a lack of independence	8	1
Very serious due to refusal or resistance in the exercise of their competences	1	—
Serious due to a lack of independence	—	1
Serious due to a breach of Technical Audit Standards	7	9
Serious due to a breach of the duty of rotation	—	1
Serious due to a breach in sending information to the ICAC	39	31
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 the pertinent guarantee	—	2

Disciplinary proceedings settled in relation to auditing	N° of cases filed 2018	N° of cases filed 2017
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
Serious due to a breach of the transparency report	—	2
Serious due to improper identification	1	—
Minor due to a breach in sending information to the ICAC	7	—
TOTAL	63	50

Expedientes año 2018



According to the above data, four very serious breaches, 47 serious breaches and 7 minor breaches were committed during the year 2018.

Among **very serious breaches**, one corresponds to a breach of obstruction of the oversight work of the ICAC, by an individual auditor, and the other three correspond to the breach of the duty of independence whose commission was carried out by two audit firms.

Among **serious breaches**, the ones referring to the breach of submitting information required by the ICAC, with thirty-nine breaches (39), of which twenty-three (23) of them arising from the non-submission to the ICAC of the periodic reporting forms (forms 02 and 03). Sixteen (16) breaches result from the absence of information in said forms of the network to which the auditor or audit firm belongs, as this information is of a substantial nature. Finally, seven (7) breaches for noncompliance with the auditing standards that could significantly affect the result of the audit work and the issuance of the report.

The **minor breaches** that have been committed, corresponded to the absence of information in said reporting forms, whose omission according to the circumstances, was not deemed proven as substantial information. Among these breaches, four of them could not be pursued because of the statutes of limitation and three breaches were subjected to a disciplinary proceeding.

The following information is highlighted in relation to disciplinary proceedings that have been resolved and committed breaches:

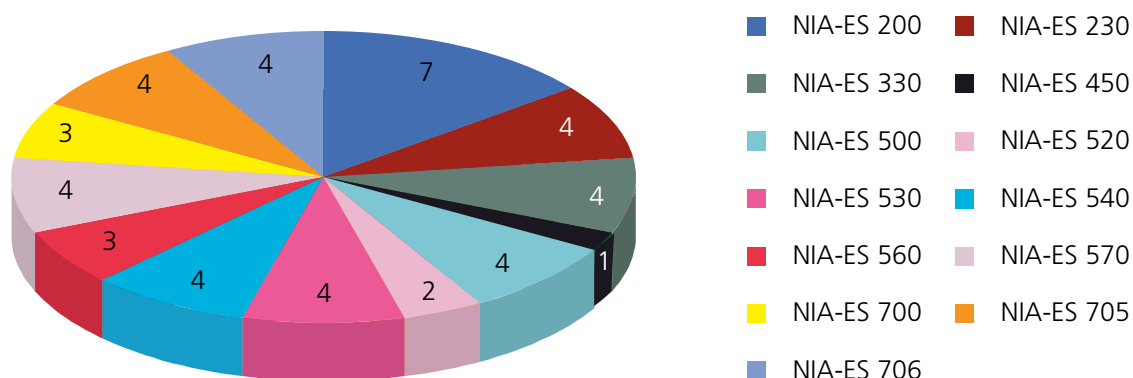
- Disciplinary proceedings processed because of the lack of inclusion in the periodic reporting forms to the ICAC (form 02, in the case of individual auditor and form 03 in the case of audit firm) of the information referred to the network to which auditors or audit firms belong. (Serious and minor breaches).
 - Serious. 16 disciplinary proceedings resolved during the year 2018 correspond to breaches committed by 11 audit firms, which have accumulated because they were comprised of two consecutive years; 10 disciplinary proceedings in relation to 5 firms (omission of the network information in forms 03 submitted in October 2015 and November 2016). The other 6 disciplinary proceedings corresponding to 6 firms that had not included information about the network to which they belong in the form submitted in November 2016.
 - Minor. 7 disciplinary proceedings were resolved during 2018, in relation to 4 auditors. In these disciplinary proceedings, according to the concurrent circumstances, the committed breaches were deemed minor, because the element that could be viewed as non-submitted information of a substantial nature was not proven. However, regarding the 3 breaches related to the form submitted in 2015, it was agreed that they had reached the statutes of limitation and the other four were subjected to a corresponding fine.
- Disciplinary proceedings processed because of the lack of submission of the periodic reporting forms to the ICAC (form 02, in the case of individual auditor and form 03 in the case of audit firm). (Serious breaches).
 - 17 disciplinary proceedings related to audit firms were resolved during 2018, which had accumulated, because of the lack of submission of form 03 in October 2015 and November 2016 (7 firms) and for the lack of submission of the form in November 2016 (3 firms).
 - 6 disciplinary proceedings were resolved related to individual auditors during 2018, which had accumulated, because of the lack of submission of form 02 in October 2015 and November 2016 (3 auditors).

Disciplinary proceedings undertaken because of noncompliance with the auditing standards that could have a significant impact on the result of the audit work and, consequently, on the audit report (serious breach). The number of disciplinary proceedings amounted to 7, mostly on audit work of accounts corresponding to the financial year 2015. The breaches essentially affected standards related to the obtainment of evidence. As well as the going concern principle and rules related to the issuance of the report and its opinion and, specifically: NIA-ES 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing"; NIA-ES 230 "Audit documentation"; NIA-ES 330 "The Auditor's Responses to Assessed Risks"; NIA-ES 450 "Evaluation of misstatements identified during the audit"; NIA-ES 500 "Audit evidence"; NIA-ES 530 "Audit sampling"; NIA-ES 540 "Auditing Accounting Estimates and Related Disclosures"; NIA-ES 560 "Subsequent events"; NIA-ES 570 "Going concern"; NIA-ES 700 "Forming an opinion and reporting on financial statements"; NIA-ES 705 "Modifications to the Opinion in the Independent Auditor's Report"; and NIA-ES

706 “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”⁷.

Breached NIAs	N° disciplinary proceedings
NIA-ES 200	7
NIA-ES 230	4
NIA-ES 330	4
NIA-ES 450	1
NIA-ES 500	4
NIA-ES 520	2
NIA-ES 530	4
NIA-ES 540	4
NIA-ES 560	3
NIA-ES 570	4
NIA-ES 700	3
NIA-ES 705	4
NIA-ES 706	4

Breached NIA-ES



The year 2018 was the first year of disciplinary proceedings corresponding to auditing works to which the NIA-ES was fully applied. Hence, the first year of which there is data

⁷ For the first time, details of the breached NIA-ES are collected in order to evaluate their follow-up or evolution in the forthcoming years.

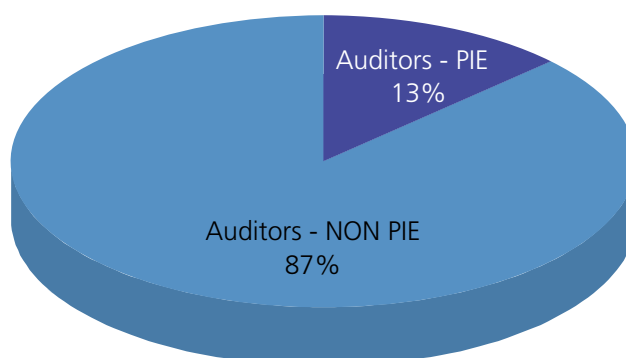
on the breached standards. This circumstance, together with the small number of disciplinary proceedings, prevents the possibility of drawing conclusions regarding the correct execution of the audit work as a whole, in accordance with the applicable auditing standards, nor of the evolution in relation to the previous year.

- A disciplinary proceeding related to an individual auditor because of the issuance of a report corresponding to a work that did not have the nature of an audit, in which the auditor was identified as such. This generated confusion regarding its nature as an audit work. (Serious breach).
- 8 disciplinary proceedings in which three repeated breaches have been committed in relation to the duty of independence by two audit firms. (Very serious breaches).
 - 6 disciplinary proceedings, due to absence of independence of the auditors because of the incompatibility status of a partner in the audit firm, according to article 13.a) of the TRLAC. The partner was in charge of the administration of the audited entity, which led to incompatibility to the audit work of the individual and consolidated annual accounts corresponding to three consecutive years. (SME audited entity).
 - 2 disciplinary proceedings for absence of independence of the auditors because of the incompatibility status of an audit firm belonging to a network, according to article 16.1.b) 1st of the LAC. Services were provided in relation to the accounting and comprehensive management of the audited entity. (Small entity).
- A disciplinary proceeding related to an individual auditor because of the resistance to the enforcement of the control powers or discipline of the ICAC and the lack of submission to this Institute of the requested information, in relation to the audit of a small entity. (Very serious breach).

The following chart shows the disciplinary proceedings resolved in detail, due to breach of technical auditing standards that could have a significant impact on the audit work and the issuance of reports. It also includes breach of the duty of independence, in relation to the number of PIE auditors regarding which disciplinary proceedings have been undertaken, according to the data included in the following table:

	Year 2018	Year 2017
PIE Auditors	2	6
NON-PIE Auditors	13	10

Disciplinary proceedings related to audit works corresponding to PIE and non-PIE in 2018



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 Law on Auditing (previously Article 27.5 of the TRLAC) in relation to the disciplinary proceedings processed in the Sub-Directorate General of Technical Audit Standards, as well as the following reports on appeals for reconsideration lodged in accordance with Article 112.1 of LPACAP, recurso extraordinary appeal for review filed in accordance with Article 125 of the aforementioned LPACAP and revision of office in accordance with the provisions of Article 109 of said Law:

Appeal Reports	2018	2017
Appeal Reports from audit cases	18	30
Reports on extraordinary review appeals	—	1
Appeal Reports from account deposit cases	17	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 23 disciplinary proceedings have been referred to different courts, with the corresponding information and support.

During 2018, 6 dismissal sentences of the contentious-administrative appeal filed by the auditors or audit firms have been issued. An appeal was subsequently filed regarding three of these sentences, which was denied in all cases.

In relation to the filing of accounts, a dismissal sentence of the contentious-administrative appeal filed by the sanctioned company was also issued.

INTERNATIONAL ACTIVITY

The Sub-Directorates General of Inspections and Investigations and Technical Audit Standards regularly participate at the international meetings, 4 being the number of these meetings in 2018, relating to the following organisations:

- European Union Committees.
Audit Regulatory Committee (AuRC): integrated by the authorities with regulatory authority regarding audits of the different Member States of the European Union.
- Plenary sessions of the Committee of European Auditing Oversight Bodies (CEAOB). CEAOB 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 standards 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.
- Subgroup of CEAOB Auditing Standards: 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 letters of comments for submission to said issuer. Analysis of the differences between the regulations applicable to each Member State of the European Union and the Rules 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 findings 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 five continents and with the objective of exchanging experiences and knowledge regarding inspections and technical audit regulations. This Forum holds both Plenary sessions and group sessions.
- Competent authority of the United States of America (PCAOB): Joint inspection activities, in 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 Inspections and Investigations and Technical Audit Standards regularly participated in conferences, 41 being the number in attendance at these conferences calls in 2018, relating to the following groups:

- IFIAR Standards Coordination Working Group (SCWG): attendance at 6 conference calls; to plan the actions and schedules of the subgroup regarding the comment letters on Standards (IAASB) or responses to requests from IFIAR Officers; a discussion is held regarding the opportunity to hold specific conferences with IAASB and/or IESBA; the subgroup is informed of the meetings that the IFIAR Officers or the Office of the Chairman of the subgroup has held with other agencies (IOSCO, PIOB, etc); follow-up is performed on the points agreed in previous conferences, to discuss the modification

requirements for the international standards on auditing and ethics, in light of the findings identified in the inspections performed at international level, propose that they be communicated to the IAASB and IESBA, and also propose a response to the international standard drafts issued by said international standard setters; and follow up on the actions carried out by the IAASB and IESBA regarding the issues included in the IFIAR letters sent to said international standard setters. During the year, a letter of comments was written down in relation to exposure draft - ISA 315 "Identifying and Assessing the Risks of Material Misstatement" presented by the IAASB; the letter issued in the previous year with respect to ISA 540 "Auditing Accounting Estimates and Related Disclosures" has been followed up and the letter of comments on the draft submitted by the Monitoring Group of the International Federation of Accountants (IFAC) on governance alternatives.

- Colleges of Regulators: attendance at 15 conference calls to discuss aspects of improvement in audit firms.
- CEAOB Auditing Standards subgroup: attendance at 10 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 315 "Identifying and Assessing the Risks of Material Misstatement" presented by the IAASB; the letter issued in the previous year with respect to ISA 540 "Auditing Accounting Estimates and Related Disclosures" has been followed up and the letter of comments on the draft submitted by the Monitoring Group of the International Federation of Accountants (IFAC) on governance alternatives.
- CEAOB Enforcement Subgroup: attendance of 2 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 standards 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.
- CEAOB working group created to issue Guidelines on the application of the fee limit set forth in article 4.2 of Regulation (EU) n° 537/2014 of April 16 of the European Parliament and of the Council of April 16, 2014: attendance to one conference call to discuss the draft of these guidelines.
- CEAOB working group created to issue Guidelines on the maximum duration of the audit engagement set forth in articles 17 and 41 of Regulation (EU) n° 537/2014, of April 16, of the European Parliament and of the Council of April 16, 2014: Attendance to one conference call to discuss the draft of the list of topics to be included and developed in the guidelines and the planned calendar of actions. The ICAC shall lead this working group.

In addition, the ICAC has participated in the first meeting organised by the European Systemic Risk Board (ESRB) and CEAOB in 2018, 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.

Finally, in mid-2018, negotiations have begun with the competent authority of Canada (Canadian Public Accountability Board-CPAB), for the signing of a Protocol between the Canadian authority and the ICAC, on cooperation for supervision of auditors and exchange of audit work papers of auditors and audit firms subject to the jurisdiction of both competent authorities. The purpose of signing this Protocol, which will allow the exchange of information between the two authorities, is the improvement of the quality and trust of audits through the auditor's supervision to protect investors, reinforce public confidence in the audit process and increase investor confidence in their respective financial markets.

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)

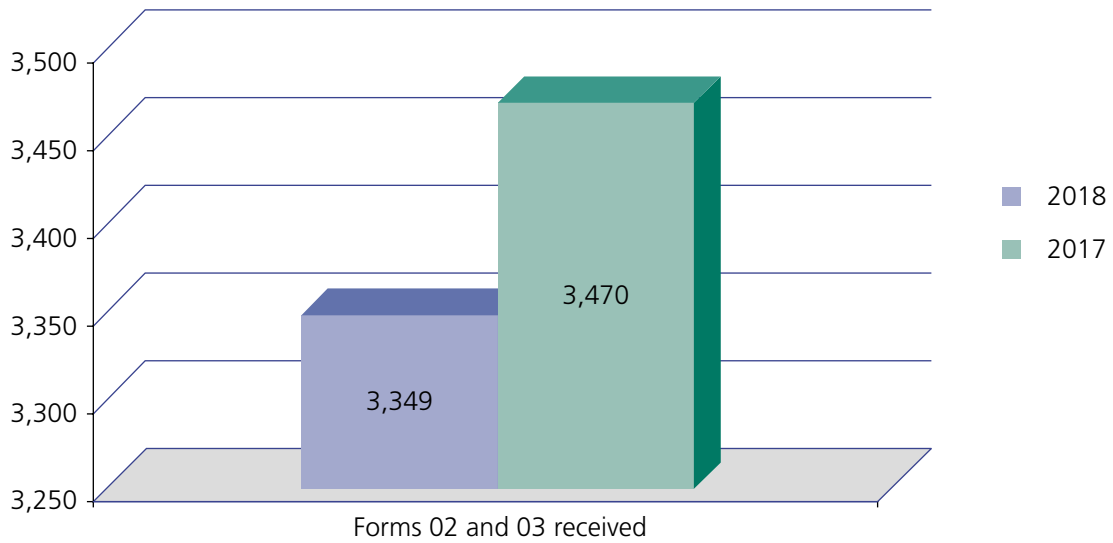
Access to the ROAC is by means of meeting the requirements and passing the tests set out under Audit Law 22/2015, of July 20, 2015, and in the implementing Regulation of the consolidated text of the Audit Law, passed by Royal Decree 1517/2011, of October 31, 2011. Only the auditors who are members of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

The following activities were performed in relation to the ROAC:

ROAC	2018	2017
No. of 02 and 03 forms received	3,349	3,470
Modifications of auditors and audit firms (*)	661	908
Registration of auditors	343	56
De-registration of auditors	33	52
Registration of companies	42	40
De-registration of companies	36	47
Certificates issued	1,065	1,509
FEE (art.87 LAC): CROSSOVER BETWEEN FORMS 02/03		
Settlement proposals	437	107
Amount	110,670.74 €	357,234.16 €
Settlement proposals filed	48	11
Amount	13,107.45 €	17,526.86 €
Provisional settlements	325	83
Amount	89,862.93 €	44,297.91 €
Revenue from proposals or settlements	232	49
Deposited amount	59,694.91 €	113,926.30 €

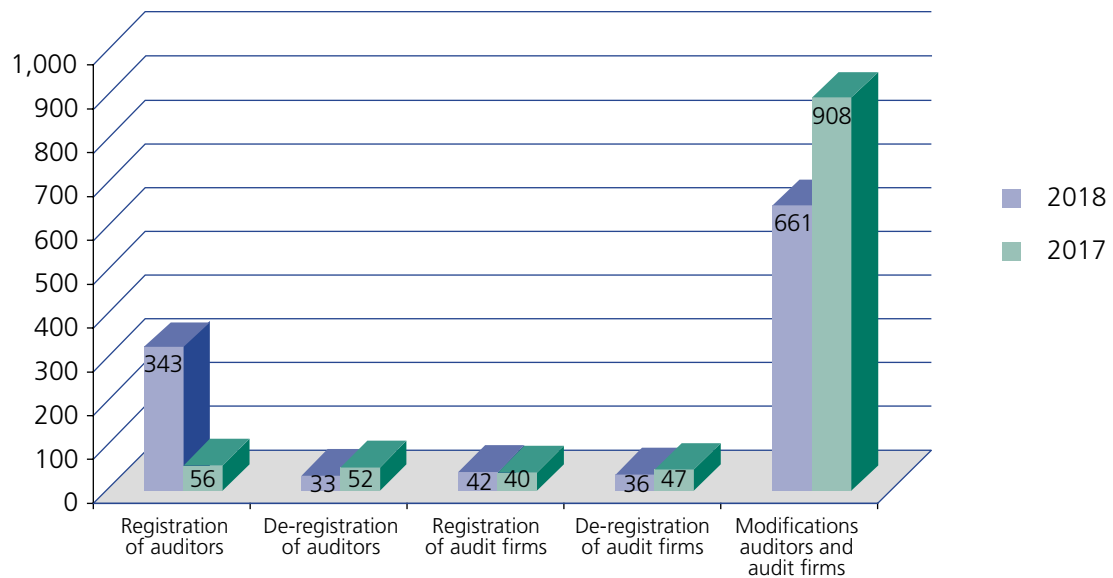
(*) The number of requests submitted by auditors (forms R21, R31, R32 and R33) and audit firms (forms R51 and R52) regarding changes of situation and modification of data were taken into account.

Information submitted by auditors and firms

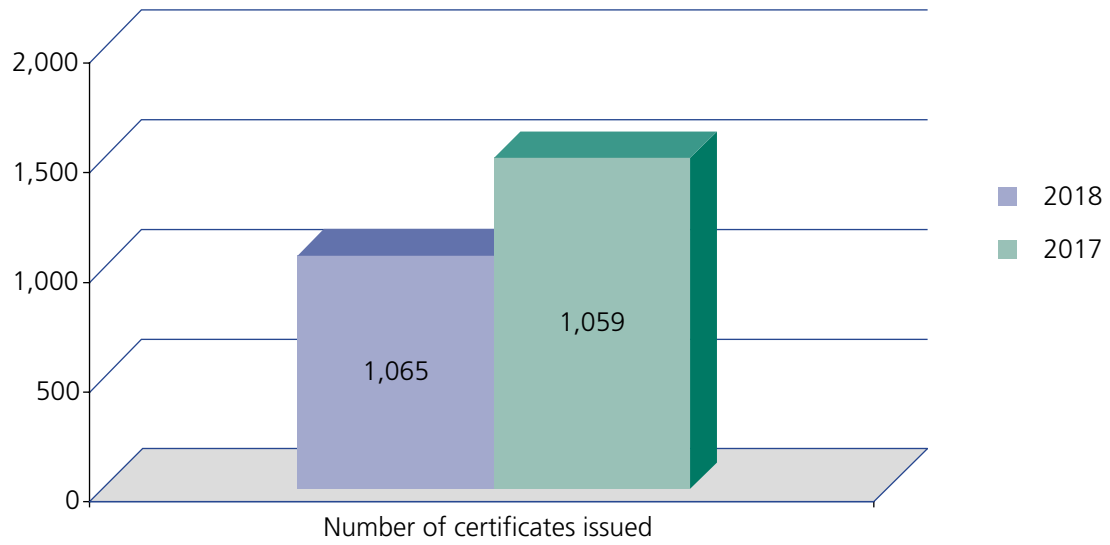


Forms 02 and 03 refer to those approved by the ICAC Resolution of June 29, 2012 (amended by the Resolutions of July 25, 2014, October 31, 2016 and September 29, 2017), for the provision of the compulsory information by auditors and audit firms.

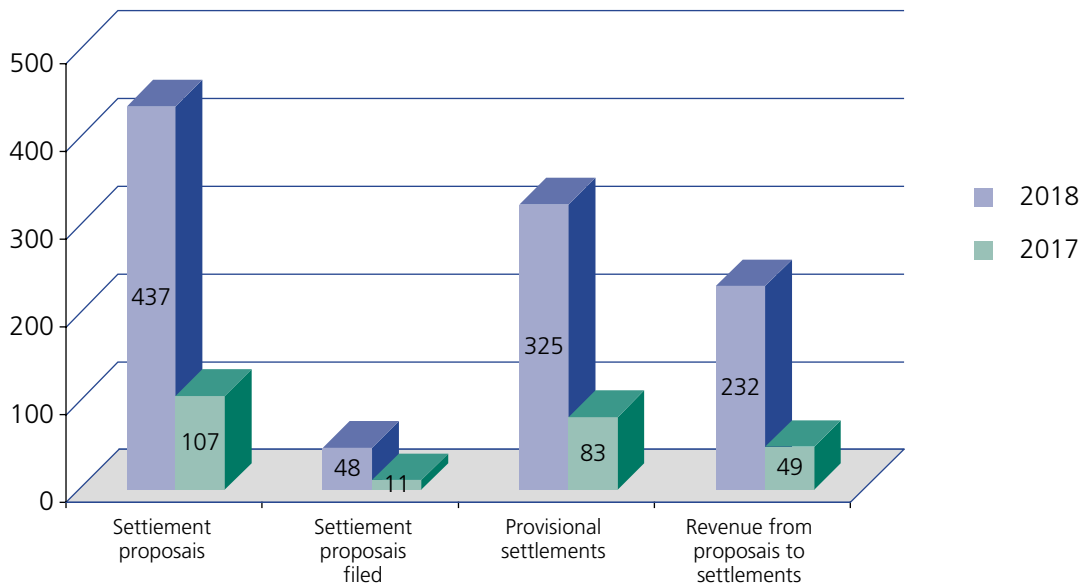
Official Register of Auditors



Certificates issued



Fee Management

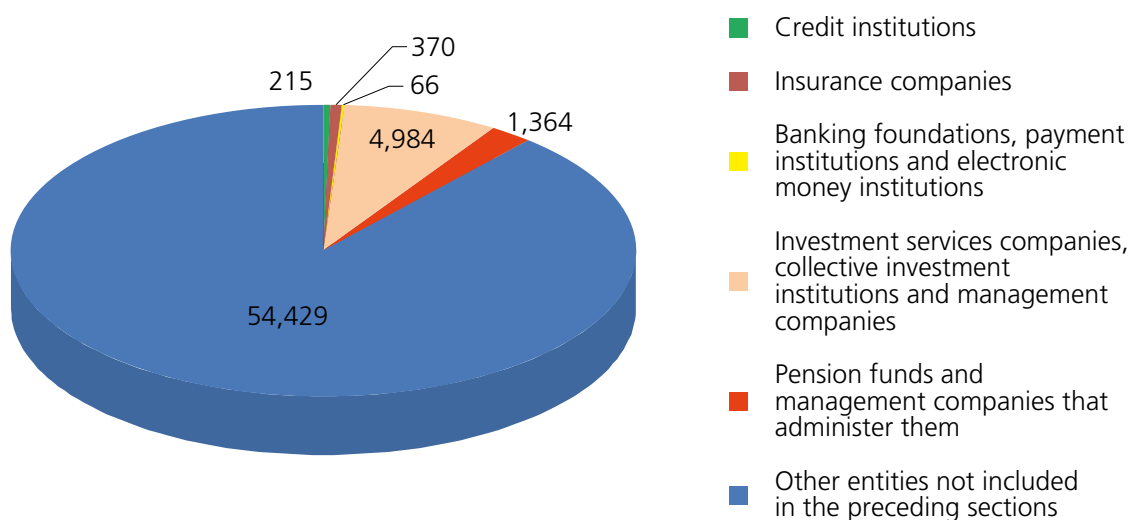


Practising auditors and audit firms declared a number of **61,428 audit engagements** to the ROAC between October 1, 2017 and September 30, 2018.

The breakdown by type of audit is as follows:

Audit engagements	NUMBER	%
Credit institutions	215	0
Insurance companies	370	1
Banking foundations, payment institutions and electronic money institutions	66	0
Investment services companies, collective investment institutions and management companies	4,984	8
Pension funds and management companies that administer them	1,364	2
Other entities not included in the preceding sections	54,429	89

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, 2018, the annual report entitled "The auditing situation in Spain" is prepared. According to the report on the Auditing Situation in Spain in 2018, the number of practising auditors was 3,997, of whom 2,227 work as independent contractors and 2,800 work for firms (1,030 auditors are both independent practising auditors and partners or auditors appointed by audit firms). The number of firms inscribed in the ROAC was 1,405.

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 continuance to the project that was started 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.

The ICAC has been committed to using 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 adhesion to Notific@ and GEISER have also been carried out, whose use in definitive production has been 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 2018:

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
CINCONET	Economic data external queries	IGAE
ATENEA	Budget Modifications	IGAE-DGPresupuestos
NEDAES	Payroll	Public Function
Badaral	Central Personnel Register	Public Function
Funciona	HR procedures	Public Function
SIGPE	Communications with Public Administration	Public Function
Conecta-centralización	Centralised contracting	DGRCC
CMAE	ICT centralisation	SGAD
Notifica (pre-production)	Electronic notifications DEH	SGAD
Geiser (pre-production)	Electronic record	SGAD
Plataforma Contratación	Electronic bidding (in tests)	MINHAFP

Platform application	Content	Related centre
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 2018, the following ones:

Platform application	Content
ROACNet	ROAC
ROAC website	ROAC procedures
Tasas_791	Payment Fee 791_608 and 791_609
Depósito de Cuentas	Disciplinary proceedings for non-deposit of accounts
ICACFormación	Ongoing Training
PUBLICAC	Publishing Service
Biblioteca	Library Management
ATLAS BD	Database
MiEscritorio	Public oversight system
Pentana VISION	Public oversight system
Consultas de Contabilidad	In Pre-production
Intranet	ICAC
MiContabilidad	Accounting (Contabi Application)
SharePoint	Public oversight 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, which have been on a steady rise since the year 2017.

1. Disciplinary proceeding for breach of the duty to file accounts.
2. Request for refund of undue income (ICAC fees).
3. Communication of the termination of the audit contract (art. 22.2, Law 22/2015).
4. Communication of the circumstances determining the lack of issuance or waiver to continue with the audit contract (art.5.2, Law 22/2015)
5. Communication to the Accounting and Auditing Institute from commercial registries on the non-acceptance of the appointment of an auditor (DGRN instruction 09/FEB/2016).
6. De-registration of an auditor from the Official Register of Auditors.
7. De-registration of an audit firm from the Official Register of Auditors.
8. Modification of public data of an auditor registered at the Official Register of Auditors as a practitioner (form R31).
9. Modification of data of an audit firm in the Official Register of Auditors (form R51).
10. Application for registration certificate in the Official Register of Auditors of the auditor or audit firm (form R6).
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. My data and requests.
15. 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, on auditing.
16. Modification of data of auditors not registered as practitioners in the Official Register of Auditors (form R32).
17. Modification of non-public data of auditors registered in the Official Register of Auditors (form R33).
18. Modification of non-public data of the companies registered in the Official Register of Auditors (form R52).
19. Change of situation in the section of natural persons of the Official Register of Auditors (form R21).
20. Registration/De-registration as a practicing auditor, without change of situation (form R22).
21. Application for admission to the professional entrance exam to register in the Official Register of Auditors.
22. Information to be sent by auditors and audit firms (forms 02 and 03).

23. Fee for the oversight of the audit activity (code 608). Article 87 of Audit Law 22/2015, of July 20, 2015, on auditing.
24. Registration of an audit firm in the Official Register of Auditors (form R4).
25. Registration of an auditor in the Official Register of Auditors (form R1).
26. Intranet.

Regulatory Projects and the Audit Committee

During this period, 42 reports and queries of the General Secretariat were carried out:

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

Organisation and coordination of the meetings of the Audit Committee (3 meetings in 2018).

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 2017 has been published in the Official Gazette of this Agency for June 2018 (BOICAC number 114).

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, 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. Additionally, the website of the Institute provides information on the content of each BOICAC.

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".

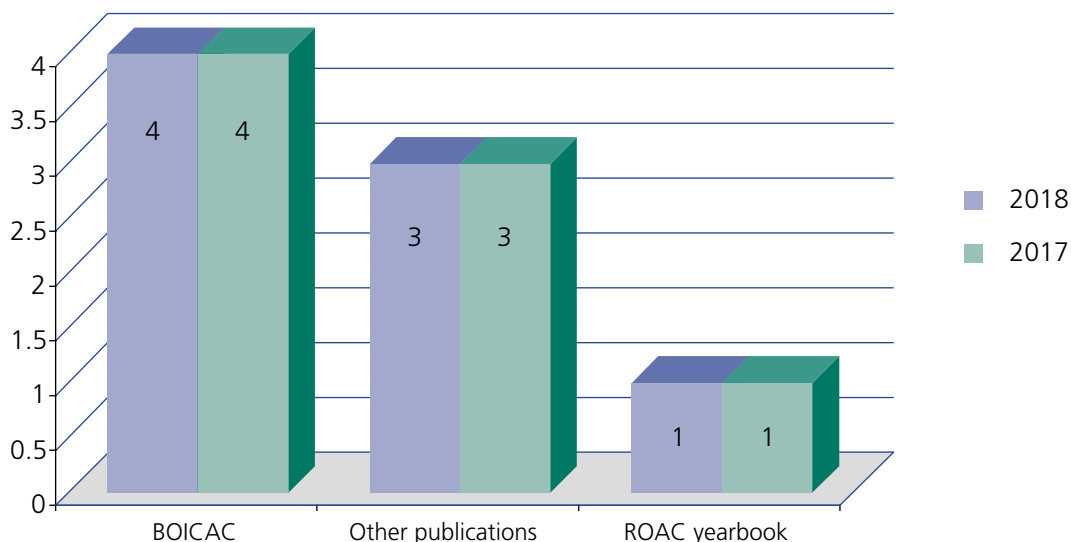
Both publications are freely and openly available on the website of the AEBOE, which is updated when any standard is published that the ICAC believes forms a fundamental part of the regulations on Accounting or Auditing.

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 2018 regarding titles published with respect to the previous year, were as follows:

Publications	2018	2017
BOICAC	4	4
Other publications	3	3
ROAC yearbook	1	1

Publications



In 2018, in order to facilitate access to the titles published on print by this organisation and that are out of print, the text in reading mode is made available to those interested parties at <http://www.icac.meh.es>. ASEPUC award-winning titles from recent years are also available online. These works are freely and openly available online at the website of the ICAC, in the Section: Publications service.

In addition, as for the powers related to the disclosure of matters on the competences of this Institute, and for the best exercise of its functions, an agreement was also signed with ASEPUC for the preparation of technical reports in accounting and auditing matters, which has produced five studies in 2018; on the following matters:

1. "Critical analysis of the accounting situation of small and medium enterprises in Spain. An effective simplification proposal within Directive 34/2013/EU."
2. "Compared international analysis of the Accounting Regulator: structure and functions. The accounting regulation in accordance with the oversight of financial entities."
3. "Evolution of changes in international financial reporting standards and their adoption in different countries."
4. "International analysis of the organisation in audit oversight in other countries (EU and third countries): structure, functions and relationship regarding the oversight of entities that issue securities."
5. "External rotation effects regarding the new EU and national standards."

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

The search for documents published on the latter is made easy through the summaries that are in the file for each gazette.

The Gazettes, ROAC Yearbook and the International Financial Reporting Standards are available by individual sale or subscription.

ECONOMIC-FINANCIAL INFORMATION

Economic data

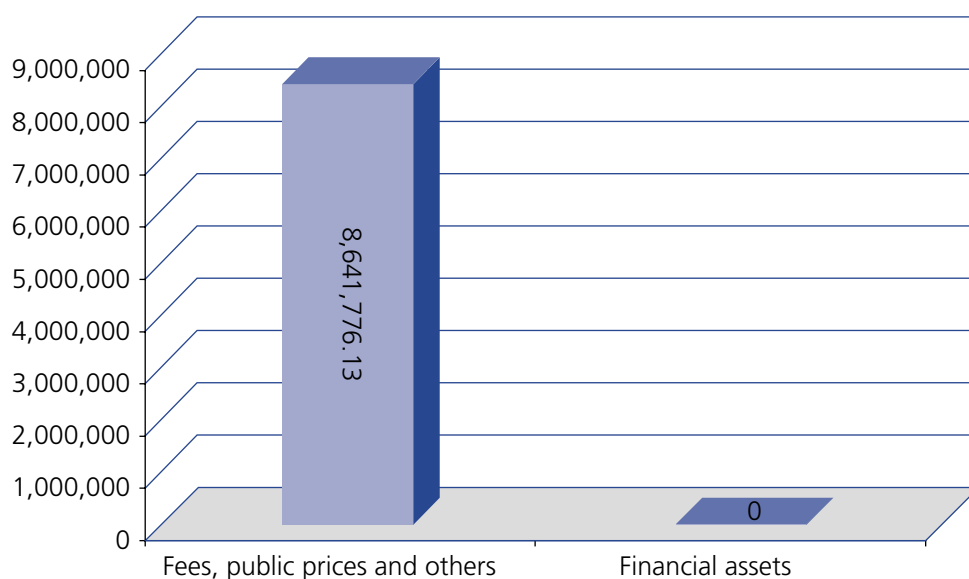
The Accounting department is responsible for keeping the Organisation's accounting records, preparing annual accounts for their formulation and approval, payment management and control, treasury control, budgeting and budgetary modifications.

During the year 2018, the ICAC obtained revenues for €8,646,941.56, according to the following breakdown:

Implementation of revenue budget

Chapter	Implementation of revenue budget 2018	€	%
III	Fees, public prices and others	8,641,776.13	99.94
VIII	Financial assets	5,165.43	0.06
TOTAL		8,646,941.56	100.00

Implementation of revenue budget 2018

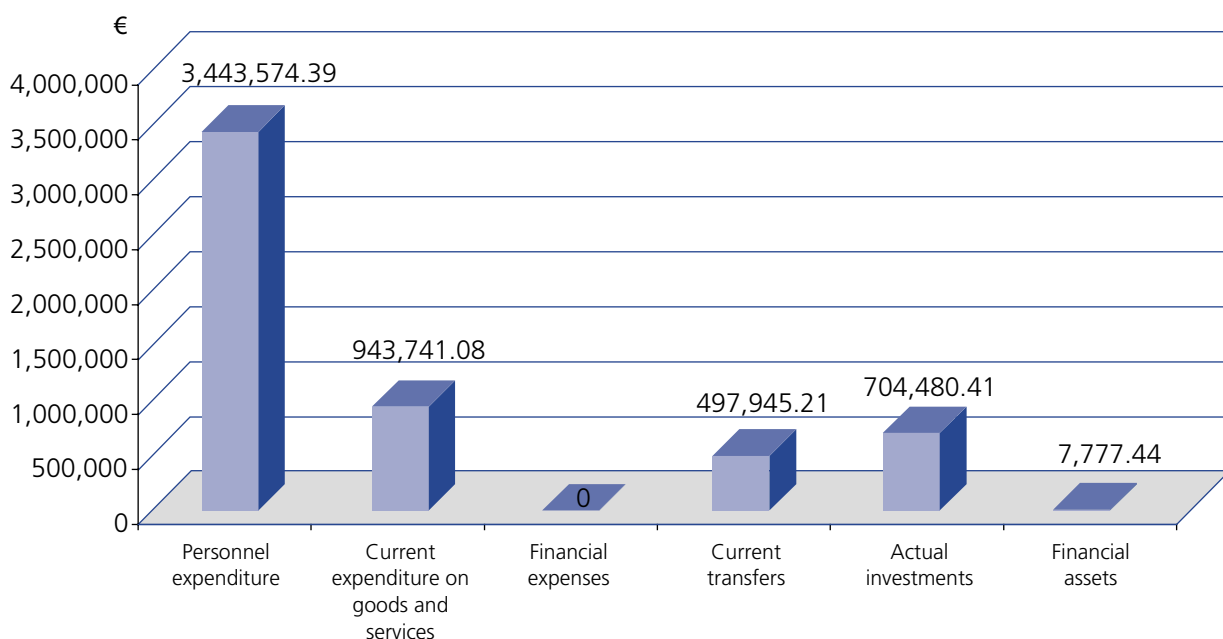


Implementation of expense budget

In 2018, the expenses amounted to €5,597,518.53, with the following breakdown:

Chapter	Implementation of expense budget 2018	€	%
I	Personnel expenditure	3,443,574.39	61.52
II	Current expenditure on goods and services	943,741.08	16.86
III	Financial expenses	0.00	0.00
IV	Current transfers	497,945.21	8.90
VI	Actual investments	704,480.41	12.58
VIII	Financial assets	7,777.44	0.14
TOTAL		5,597,518.53	100.00

Implementation of expense budget 2018



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 workload 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 concerning the issuance of 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:

- a) 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 2018, 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) and the European Financial Reporting Advisory Group (EFRAG), for 2018.

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 case of fees to international Organisations, the request for the various mandatory reports and the elevation of their approval by the Council of Ministers. 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.

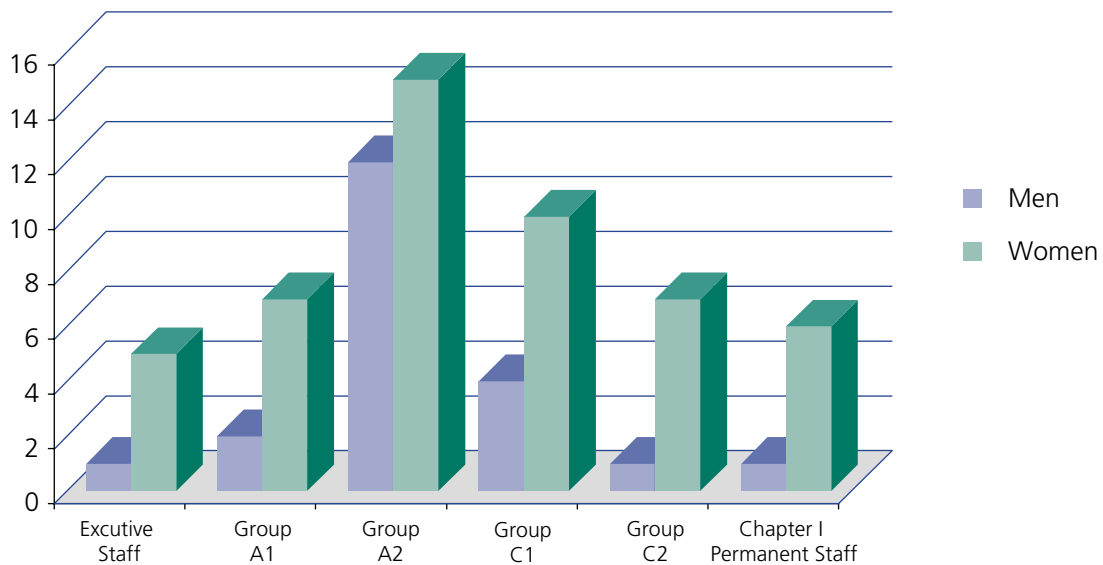
- b) Collaboration agreements: In 2018, the agreement with the IGAE for assistance and hosting of the Sorolla2 and Canoa systems has been renewed. Processing of the Lawyers' reports and processing of the filings in all their phases.
- c) Management of payments in advance of the fixed cash fund: including payments, accounting of the operations, remitting of supporting accounts, remitting of cash statements.
- d) Management of indemnities for service reasons:
 - Domestic and international per diem allowances: preparation of the audit engagements 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 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 Administration.

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 keeping, holidays, etc.

Official and Labour Staff



Official and labour staff			
TYPES OF PERSONNEL	MEN	WOMEN	TOTAL
SENIOR POSTS	1	0	1
STAFF:			
Executive staff	1	5	6
Group A1	2	7	9
Group A2	12	15	27
Group C1	4	10	14
Group C2	1	7	8
Professional groups	0	0	0
TOTAL	20	44	64
OTHER PERSONNEL:			
Contracted administrative employees	0	0	0
Other personnel	0	0	0
TOTAL	0	0	0
NON-STATUTORY STAFF:			
Chapter I Permanent Staff	1	6	7
Chapter I Temporary Staff	0	0	0
Chapter VI	0	0	0
TOTAL	1	6	7

ANNEX 1
SECTORS WHERE ENTITIES OPERATE WHOSE AUDIT
ENGAGEMENTS WERE INCLUDED IN THE INSPECTIONS COMPLETED
IN 2018 - INSPECTION FOCUS AREAS

Sector-Subsector	N° of audit entities		N° of engagements	
	PIE	Non-PIE	PIE	Non-PIE
5.1 Banks and savings banks	1 ⁸		1	
Telecommunications and others		1		1
3.5 Pharmaceutical products and Biotechnology	1		1	
TOTAL		3		3

The selected engagements were the audits of the individual annual accounts.

The following areas were selected by the inspection:

Items from financial Statements	Sector	5.1 Banks and savings banks		3.5 Pharmaceutical products and Biotechnology	
		N° PIE	N° Engagements	N° PIE	N° Engagements
Financial instruments		1	1	—	—
Loans to Customers ⁹		1	1	—	—
Development		—	—	1	1
Revenue		—	—	1	1
Trade receivables and other receivables		—	—	1	1
Inventories		—	—	1	1
Supplies		—	—	1	1
External services		—	—	1	1
Other payables		—	—	1	1

⁸ Issuers of securities for trading in official secondary securities markets.

⁹ The review was limited to the impairment of credit risk.

Sector	Telecommunications and others	
	N° Non-PIE	N° Engagements
Revenue	1	1
Trade and other receivables	1	1
Fixed assets	1	1

ANNEX 2

System of Quality Control Item	Deficiency	Deficiency description
Leadership	Assignment of responsibilities	<ul style="list-style-type: none"> • The ultimate responsibility system of quality control lies with the partner who, in turn, is also responsible for auditing. In this regard, there are no measures to ensure that the function of the party ultimately responsible for the system is properly exercised, taking into account that it depends on the Chairman of the audit firm. • The audit manager participates in different processes related to the system of quality control : <ol style="list-style-type: none"> 1.- In the HR area , it participates in the performance evaluation of partners and directors authorised to sign audit reports as well as in the final settlement of staff wages. In relation to these aspects, the policies and procedures do not include a detailed description of the functions that the audit manager performs. Nor is it documented in practice, neither the decisions made nor the criteria taken into account to adopt them. 2.- In the Follow-up area, the party ultimately responsible for the system has influenced the selection of partners to be reviewed, excluding from said review and excluding another partner thereof who, in turn, is one of those responsible for the element of the system of quality control of audit engagements. Therefore, due to this intervention, the follow-up objectivity of system of quality control is not assured.
Acceptance and Continuance of Audit Engagements	Risk assessment of audit engagements, in the case of groups of several entities of a group of firms	Absence of guidelines or orientation implemented for the risk assessment of audit engagements of a group of firms, taking into account the risk of each of the grouped entities
Acceptance and Continuance of Audit Engagements	Evaluation of the professional risk	The ability of the entire audit engagement team is not evaluated, in terms of available hours, to reasonably ensure, before accepting or continuing with an audit assignment, that the professionals involved in the engagement have the necessary time to develop their responsibilities. In particular, this information is not available for the staff belonging to the management team (partners, directors and managers), for the quality control reviewers, for the staff of the Shared Services Centre, as well as for specialists involved in the audit work.
Acceptance and Continuance of Audit Engagements	Time of completion of the acceptance and continuance process	In 22% of the audited entities, selected by the ICAC inspection, contracts have been signed to conduct audits before finalising the approval process for the continuance of recurring audit engagements.
Acceptance and Continuance of Audit Engagements	Acceptance of continuance of audit engagements in clients / recurring engagements	The policy on the completion of the continuance approval process in the case of recurring audit engagements admits exceptions to its completion, which does not ensure compliance with the objectives of the acceptance and continuance process of clients / engagements established in the Internal Quality Control Standard.

System of Quality Control Item	Deficiency	Deficiency description
Ethical and Independence Requirements	Confirmation of independence of components with registered office outside the Spanish territory	The independence confirmation forms of auditors from foreign offices of groups with head offices in the national territory do not include reference to Spanish regulations but rather independence is confirmed according to the regulations of each territory.
Ethical and Independence Requirements	Independence Perimeter	The tools designed for the control of the entities to which the independence requirements should be applied, do not include all the entities linked to the audited firm.
Ethical and Independence Requirements	Methodology on documentation of work papers	<ul style="list-style-type: none"> • Lack of analysis of the threats to independence derived from non-auditing services provided to audited entities and their related parties. • Poor evaluation of threats to independence and their significance in order to determine the safeguard measures to be implemented in order to reduce these threats to an acceptably low level so as not to compromise independence. • Approximately 9% of the selected sample non-auditing services have identified findings that could indicate signs of forbidden or incompatible services rendered.. The nature of the services in which these indications have been detected, has been related to valuations, internal auditing and design and implementation services of computer applications without an appropriate evaluation to determine if they compromised their independence.
Ethical and Independence Requirements	Acceptance process of non-audit services	In 20% of the services other than audit services, selected by the ICAC inspection, their acceptance process occurs after the signing of the contract for said services. Hence, this process does not reasonably ensure that these services are evaluated before being provided or that the partners of the audit engagement to the entity that hires such services, or entity linked to the entities hiring such services, can evaluate the threats and safeguard independence, where appropriate, before non-audit services are rendered.
Human Resources	Audit hours and workload follow-up	Lack of effective procedures for an adequate follow-up of the workload of the staff involved in each audit engagement and, therefore, of the audit activity.
Human Resources	Evaluation of the performance of the firm's staff and the network participating in the audit activity	<ul style="list-style-type: none"> • It has been detected by the ICAC inspection that 16% of the partners did not attend a mandatory training course on ethics and independence. However, this breach has not had an impact on the performance evaluation. Although, according to the policies, this type of mandatory training is taken into account as a quality indicator of these evaluations. • Lack of transparency on the measurement of quality indicators and their influence on the performance evaluation of both the firm's professionals, its network and those who participate in the audit activity. • Lack of transparency on the evaluation system applicable to the audit manager and the risk manager. These professionals have been designated respectively, as the ultimate responsible for the system and responsible for the acceptance and continuance of audit engagements / clients.

System of Quality Control Item	Deficiency	Deficiency description
Human Resources	Remuneration of the firm's staff and its network participating in the audit activity	<ul style="list-style-type: none"> • Lack of transparency on the criteria for determining the remuneration of partners and directors authorised to sign audit reports. • Lack of transparency of the impact of performance evaluations on the remuneration of staff participating in the audit activity.
Performance of engagements	Review in the audit team. Review Effectiveness	In 2 out of 3 audit engagements selected for review of audit archives, the oversight process in the audit team did not identify significant deficiencies, which resulted in the lack of sufficient and adequate evidence on material items of the audited annual accounts.
Performance of engagements	Quality Control Review	<p>Review documentation. In 33% of the sample selected by the inspection, it is not possible to evidence the specific audit engagements referred to in the documentation related to the quality control review.</p> <p>Review Effectiveness. In 2 out of 3 audit engagements selected for review of the audit archives, the quality control review prior to the issuance of the audit report did not identify significant deficiencies that led to the lack of sufficient and adequate evidence on material items of the audited annual accounts. In addition, in one of these audit engagements, the quality control review was closed two months before the date of the audit report.</p>
Performance of engagements	Compilation of the audit archives	Failure to compile audit archives, of 14.25% of the audit engagements, within the term established by the audit firm policies
Performance of engagements	Objectivity of the reviewers	Lack of implementation of measures to preserve the objectivity of the reviewers when cross-reviews occur between audit engagement partners
Follow-up	Audit engagement review policies	The partner responsible for the audit engagement, who is also ultimately responsible for the system of quality control , has influenced the selection of partners to include in the engagement review cycle. Audit engagements signed by the former as well as audit engagements signed by another partner also responsible for the performance of the engagement were excluded from said selection.
Follow-up	Effectiveness of audit engagement review	The 3 audit engagements, selected by the ICAC inspection for review of the audit archives, were also subjected to follow-up. In two of these audit engagements, the follow-up review has not identified significant deficiencies identified by the ICAC inspection that could be due to the lack of adequate and sufficient evidence in relation to the annual accounts.

ANNEX 3

Item of the financial statements/accounting aspects	DEFICIENCIES RELATED TO AUDIT ENGAGEMENTS	No. and type of entities	No. of Engagements
Development (accounting estimate)	<p>Identification and assessment of risks of material misstatement</p> <ul style="list-style-type: none"> Lack of identification and assessment of a significant risk derived from the uncertainty inherent to the development of new products with a long maturation period, as well as the different criteria applied in the individual and consolidated accounts. 	1 PIE	1
	<p>Substantive tests</p> <ul style="list-style-type: none"> Lack of adequate tests on the activation of development expenses, to be amortised from the marketing of products when the technical and economic viability of these products is likely. Lack of adequate tests to assess the reasonableness of the data and assumptions used by management to determine if there was impairment of capitalized expenses such as development. 	1 PIE	1
Revenue	<p>Testing controls</p> <ul style="list-style-type: none"> While testing controls are conducted for certain processes, tests on some relevant processes related to income are necessary. Tests on some controls, which are performed from a shared services centre, are not likely to provide adequate and sufficient evidence on their operating effectiveness. 	1 Non-PIE	1
	<p>Substantive tests</p> <ul style="list-style-type: none"> Lack of sufficient evidence on the integrity and accuracy of the income records, due to differences shown in the comparison between the accounting records of the annual accounts. Differences which the auditors have not performed any tests. 	1 Non-PIE	1
	<ul style="list-style-type: none"> Determination of samples with non-statistical criteria and non-randomized selection of the sample elements, without evidence of criteria to support the representativeness of the sample regarding the population. 	1 Non-PIE	1
	<ul style="list-style-type: none"> For approximately 80% of the income, which includes income from transactions with firms of the group, only the existence of the invoice and its collection is verified, without verifying the correctness of the invoiced amounts, although the auditors have determined the existence of a risk of fraud for the occurrence and accuracy assertions, by presenting the substantive tests conducted on approximately 18.20% of the income. Deficiencies due to the non-performance of substantive tests to verify consumables, the duration of services and discounts. 		

Item of the financial statements/accounting aspects	DEFICIENCIES RELATED TO AUDIT ENGAGEMENTS	No. and type of entities	No. of Engagements
Trade receivables	Testing controls <ul style="list-style-type: none"> While testing controls are conducted for certain processes, other tests are required for some relevant processes related to debtors for commercial operations. 	1 Non-PIE	1
	Substantive tests <ul style="list-style-type: none"> Failure to conduct substantive tests on approximately 85% of the balances registered for accrued and non-invoiced services and 100% of those balances registered for accrued and invoiced services. 	1 Non-PIE	1
	<ul style="list-style-type: none"> Lack of evidence of the criteria taken into account to assess the reasonability of the entity's policy in order to estimate the impairment of trade receivables balances. 	1 Non-PIE	1
Fixed assets	Testing controls <ul style="list-style-type: none"> Failure to perform testing controls for one of the inherent risks, for which the performance testing controls was planned by auditors. 	1 Non-PIE	1
	<ul style="list-style-type: none"> The tests on some controls, which are performed from a shared services centre are not likely to provide adequate and sufficient evidence on their operating effectiveness. 	1 Non-PIE	1
	Substantive tests <ul style="list-style-type: none"> Determination of samples with non-statistical criteria and non-randomized selection of the sample elements, without evidence of criteria to support their representativeness of the population. Failure to perform tests to respond to two identified risks. Failure to perform substantive tests to assess potential indications of deterioration at the end of the financial year. 	1 Non-PIE	1

