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Auditoría de Cuentas

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2010

Activity report

2010 Activity Report

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INTRODUCTION

The Accounting and Auditing Institute (ICAC) is an autonomous body attached to the Ministry of the Economy and Taxation with its own legal status and the ability to act independently in the pursuit of its stated objectives. Amendment of the regulations implementing The Account Auditing Law (Law 19/1988 of 12 July 1988), enacted by Spanish Royal Decree 1636/1990 of 20 December 1990:

- a.** According to article 2 of Spanish Royal Decree 302/1989 of 17 March which approved the governing statutes and organic structure of the Institute of Public Accounting and Auditing, its functions include:
- b.** Performing technical work and proposing a General Charter of Accounts adapted to the Directives of the European Economic Community and the Laws regulating these matters and approving the adaptations of this charter to the different sectors of economic activity.
- c.** Establishing standards for the development of those points of the General Chart of Accounts and the sectorial adaptations of the Chart deemed necessary for the correct application of the said standards, which will be published in the Institute's Bulletin.
- d.** Continuously perfecting and updating accounting plans and auditing activities, to which end it will propose to the Ministry of Economy and Taxation any legislative or regulatory modifications deemed necessary to bring them into harmony with the directives of the European Economic Community or with changes in the fields of accounting and auditing.
- e.** Supervising and disciplining the practice of the auditing profession regulated in Law 19/1988 of 12 July and the auditors themselves by conducting technical controls of audits conducted and taking the disciplinary measures applicable to auditors and auditing firms as regulated in Chapter 3 of the aforementioned Law.
- f.** Establishing an Official Register of Auditors, authorising auditors and auditing firms to become members of the Official Register, creating and maintaining the Institute's Bulletin, determining the basic rules to be followed for the administration of professional aptitude tests by the professional corporations prior approval of ICAC, and

approving the respective calls, monitoring, oversight and custody of the bonds to be provided by auditors.

- g.** Approving and publishing the technical auditing standards prepared by the public law corporations representing those who perform audits in accordance with the general principles and common practices in EU countries; drafting, adapting or revising those standards if the aforementioned corporations fail to draft, adapt or revise them after being asked to so by the Accounting and Auditing Institute.
- h.** Performing and promoting research, studies, documentation, distribution and publications intended to develop and improve accounting standards and the accounting profession.

Working with international bodies to provide technical coordination and cooperation on accounting and auditing matters, particularly EU bodies, and domestic bodies such as public law corporations or research associations.

To comply with these functions, a representative from the Institute, in accordance with the corresponding bodies of the Ministry of Foreign Affairs, will attend the meetings arranged by the specialised work groups or committees of which Spain is a member and which pertain to international governmental organisations.

The governing bodies of ICAC are: The Chairman, the Audit Committee and the Accounting Board.

The Chairman, acting as the Director General, is proposed by the Ministry of the Economy and Taxation and appointed by the Government and is the legal representative of the Accounting and Auditing Institute, exercising the powers vested in them by the Auditing Act and determined in the Institute's bylaws. The Chairman is responsible for:

- 1.** Acting as the Institute's legal representative.
- 2.** Chairing the Institute's Consulting Committee (now the Audit Committee).
- 3.** Directing, promoting and coordinating the services provided by the Institute in the performance of its functions.
- 4.** Taking the disciplinary measures referred to in article 15 of Law 19/1988 of 12 July.
- 5.** Handling the Institute's international relations, in accordance with the corresponding bodies of the Ministry of Foreign Affairs.
- 6.** Exercising the powers legally vested in the Chairpersons and the Directors of the autonomous bodies.

7. Performing any other functions assigned to them under the Auditing Law 19/1988 of 12 July or any other legal or regulatory provision.

The Audit Committee is an advisory body presided over by the Chairman of ICAC. This Committee, in the performance of its advisory functions, is responsible for conducting studies, drafting reports and making proposals on the matters falling within the scope of the Institute's jurisdiction. According to the regulations governing the Institute, the Audit Committee is composed of a maximum of thirteen members designated by the Ministry of the Economy and Taxation and broken down as follows: three representatives from the Ministry of Economy and Tax one each from the National Stock Market Commission, from the General Directorate for Insurance and Pensions Fund, and from the General Intervention for State Administration; a representative from the Court of Auditors; four representatives from corporations representing auditors; one representative from the Bank of Spain; one member of the judicial or tax professional career path or state lawyer or commercial registrar; one university professor; one investments analyst; and an expert of recognised prestige in accounting and accounts auditing. The Secretary General of the Accounting and Auditing Institute, who will perform the functions of Secretary of this committee, will attend the Auditing Committee sessions with a voice but no vote.

The Accounting Board is presided over by the Chairman of ICAC and is the body in charge of evaluating the suitability and appropriate nature of any regulatory proposal or interpretation of general interest to the accounting communities within the Conceptual Framework of accounting regulated in the Commercial Code. The Accounting Board is chaired by the Chairman of the Institute, who casts the deciding vote and by a representative from each of the other centres, bodies and institutions responsible for regulating accounting matters within the financial system: Bank of Spain, National Stock Market Commission and the Directorate General of Insurance and Pension Funds. A civil servant from ICAC acts as the Secretary of the Board and attends meetings with the right to be heard but not vote. Also sitting on the Accounting Board and attending with the right to be heard but not vote is a representative of the Ministry of the Economy and Taxation designated by the department head.

Spanish Royal Decree 302/1989 of 17 March determines that the structure of ICAC should include the following deputy directorates:

- General Secretariat.
- Deputy Directorate of Accounting Technique and Standardisation.
- Deputy Directorate of Technical Auditing Standards.
- Deputy Directorate of Technical Control.

Within the scope of authorities attributed to the Institute by Law 19/1988 of 12 July, *the General Secretariat* is responsible for: studying, proposing and managing 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 and those of an administrative nature in general as well as organising and maintaining the Official Register of Auditors and publishing the Bulletin of the Accounting and Auditing Institute.

The Official Register of Auditors is divided into two sections, one relating to individual auditors and the other to auditing firms. It periodically publishes an updated list of registered chartered auditors, listing their names and business addresses as well as the following information for members that are legal entities:

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

Starting with the publication of the amendments of Auditing Law 12/2010 of 30 June which were published in the Official State Bulletin on 1 July 2010 (hereinafter, the new legal text), this information must comply with the new reporting requirements set out in the sixth article of the new legal text.

Furthermore, auditors and auditing firms that audit the accounts of public interest entities must publish the annual transparency report referred to in article 14 bis of the new legal text.

The Deputy Directorate of Accounting Technique and Standardisation is responsible for: preparing and proposing a General Chart of Accounts that complies with the directives of the European Economic Community; adapting the GCA to the different sectors of economic activity; analysing and proposing the laws in which the accounting principles are established, 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 business accounting or the content and structure of annual accounts; in general, anything related to updating and perfecting accounting standards.

The Deputy Directorate of Technical Auditing Standards is responsible for: conducting auditing studies; coordinating and promoting the selection, training and perfection of the auditors by the public law corporations which represent public accountants and auditors or by the Institute itself; analysing the technical auditing standards prepared by the public law corporations to ensure that they agree with the generally accepted principles and common practices in EU countries; proposing to the Chairman that they be published in the Institute's Bulletin; ordering the corporations to drafts, adapt or revise technical auditing standards; drafting, adapting or revising these standards when the professional corporations fail to do so after being requested to do so by the Institute; conducting disciplinary proceedings in relation to the auditing breaches referred to in Chapter 3 of Law 19/1988 of 12 July, and in relation to the filing of annual

accounts with the Business Register referred to in Chapter 6 of Legislative Royal Decree 1/2010 of 2 July, by which the revised text of the Law of Capital Companies is approved; submitting proposals to the Chairman of the Institute on the resolution of cases and other matters falling under its jurisdiction; issuing and drafting regulatory proposals for the auditing profession and studying and responding to the queries put forward regarding this topic.

The Deputy Directorate of Technical Control is responsible for: exercising the powers of technical monitoring vested in the Institute of Public Accounting and Auditing by Law 19/1988 of 12 July, specifically: proposing the audits to be reviewed by the Institute; conducting the reviews deemed necessary for technical control purposes; preparing the technical control reports with special emphasis on circumstances constituting a breach of Auditing Laws or technical auditing standards. Article 22.5 of the new legal text sets out as monitoring of the activity, in addition to technical control or investigations, quality control or inspections.

ICAC may entrust the quality control function to corporations that represent the auditors or third parties. In both cases, ICAC employees are responsible for the supervision and direction of the quality control work.

The administrative structure mentioned above is responsible for the following matters:

- Accounting standards.
- Auditing standards.
- Supervising public auditing activities (technical and quality control).
- Managing resources and Official Register of Public Auditors (ROAC).

The work of the different deputy directorates of ICAC in 2009 and the activities planned for 2010 are discussed below:

ACCOUNTING STANDARDS

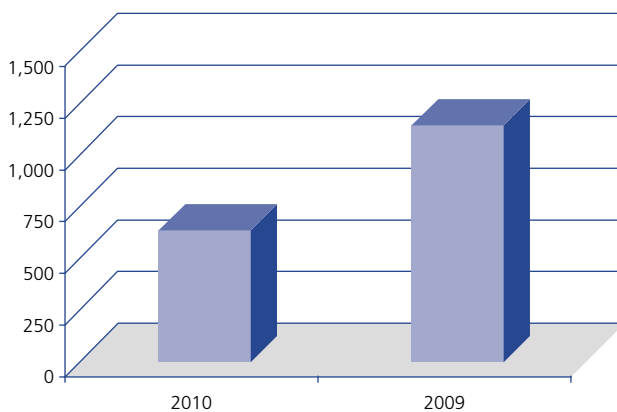
The activities performed by the Deputy Directorate of Accounting Technique and Standardisation in 2010 were as follows:

- a) Monitoring the progress of the regulatory projects proposed by ICAC:
 - Order EHA/733/2010, of 25 March, by which the accounting of public companies which operate under certain circumstances, are approved.
 - Spanish Royal Decree 1159/2010, of 17 September, by which the regulations to formulate the consolidated annual accounts are approved and the General Accounting Plan approved by Spanish Royal Decree 1514/2007, of 16 November and the General Accounting Plan for Small and Medium-Sized companies approved by Spanish Royal Decree 1515/2007, of 16 November, is amended.

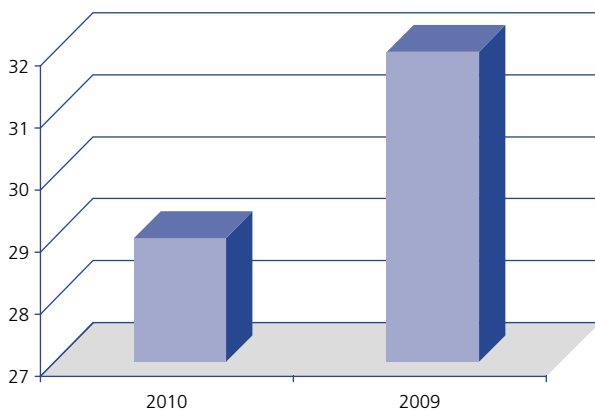
- Order EHA/3360/2010, of 21 December by which regulations on the accounting of corporate companies are approved.
 - Order EHA/3362/2010, of 23 December by which rules for adapting of the General Accounting Plan for companies awarded public infrastructures contracts are approved.
 - Resolution of 29 December 2010 of the Accounting and Auditing Institute on information to incorporate into the annual accounts report in relation to postponing payments to suppliers for commercial transactions.
- b)** Preparation of various prior documents to prepare the project for new regulations to adapt the General Accounting Plan for non-profit entities (Foundations).
- c)** Responding to queries received on the accounting treatment of specific situations. Among all queries resolved are those considered of general interest for their quarterly publication in this institute’s Official Bulletin.

	2010	2009
Queries issued	638	1,146
Queries published	29	32

Queries issued



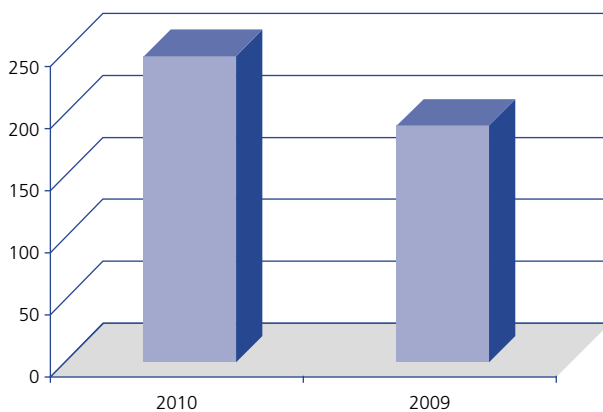
Queries published



- d) Preparing reports on the standards drafted by other bodies of the public administration or other public institutions. More specifically, the following reports were drafted:

	2010	2009
Reports drafted	247	191

Reports drafted



- e) Translation 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 Bulletin of the European Union. This task was performed by the Translation Committee set up for this purpose.
- f) Technical coordination and cooperation with international organisations by participating in accounting work groups, specifically:
 - Attending and participating in meetings of the Accounting Regulatory Committee chaired by the European Commission.
 - Attending and participating in the quarterly meetings of EGRAG with European accounting regulators, chaired by EFRAG.
 - Participating in the meetings of the accounting experts work group (ISAR) set up by UNCTAD (UN).
 - Attending national accounting regulator meetings (NSS), held in Seoul and Rome.
- g) Collaborating with the Bank of Spain on the preparation of forms for filing annual accounts with Business Registers.
- h) Collaborating with XBRL España by appointing a member of the Deputy Directorate to chair the PGC-2007 and PGCPYMES-2007 Taxonomy Subgroup, in addition to attending meetings on this topic.
- i) Collaboration with the General Intervention for State Administration, participating in the work group to draft the regulation to prepare the consolidated annual accounts in the public sector.
- j) Six meetings of the Accounting Consulting Committee were held in 2010 (four meetings in 2009).
- k) Six meetings of the Accounting Board were held in 2010 (four meetings in 2009).

AUDITING STANDARDS

Specific actions performed in 2010 by the General Deputy Directorate for Auditing Technical Standards were the following:

- Law 10/2010, of 30 June, which amends Law 19/1988, of 12 July, on Auditing, Law 24/1988, of 28 July, on the Securities Market and the consolidated text of the Spanish Companies Act approved by Legislative Royal Decree 1564/1989, of 22 December, in order to bring it in line with Community regulations. During the debate to the date

of its approval by the Spanish Parliament, the corresponding reports on the amendments presented, in addition to supporting explanatory notes, were carried out.

- During 2010 (second semester), the process to prepare the draft regulation of the accounts auditing law commenced by means of conferences by personnel from this deputy directorate for the purposes of integrating a first draft for this project.

In this context, by means of resolution from the Accounting and Auditing Institute of 15 September 2010 (published in the BOICAC nº 83/September 2010), the Reflection Group was created on training accounts auditors to access accounts auditing activity in Spain, with the purpose of preparing a report on training for this access, which serves as a basis for subsequent regulatory development.

- Also in 2010, a large part of the process of translating the International Auditing Standards issued by the International Federation of Accountants (IFAC) was completed. This process had commenced the year before in response to the request from the European Commission for possible adoption within the framework of article 26 of Directive 2006/43/EC and was handled by the Work Group for the translation of these standards pursuant to the Resolution of 31 October 2008 published in the Institute's Bulletin, with the participation and collaboration of personnel from the Deputy Directorate's office. In 2010 a total of 7 international auditing standards (ISA) and an international quality control regulation, in particular, was translated:
 - ISA 610 – Use of the work of internal auditors.
 - ISA 620 – Use of the work of an expert auditor.
 - ISA 710 – Comparative information – Figures corresponding to previous periods and comparative financial statements
 - ISA 720 – Responsibility of the auditor regarding other information included in the documents which contain the financial statements audited.
 - ISA 800 – Special considerations – Auditing of financial statements prepared in accordance with an information framework for specific purposes.
 - ISA 805 – Special considerations – Auditing of just one financial statement or a specific aspect, account or entry from a financial statement.
 - ISUA 810 – Commissions to inform about summarised financial statements.
 - NIIC 1 – Quality Control in auditing firms who perform audits and reviews of financial statements in addition to other commissions which provide a degree of security and related services.

During this year the comments received from the European Commission Directorate General for Translation in relation to the drafts of the translation of 33 of the international auditing rules and international quality control regulations, have been reviewed, analysed and debated. There has also been debate with the IFAC Latin American Review Committee on the proposal to translate the Glossary of Terms of

the Manual of International Auditing and Quality Control Regulations and the drafts of the translation of all the international auditing rules and international quality control regulations have been referred to this committee.

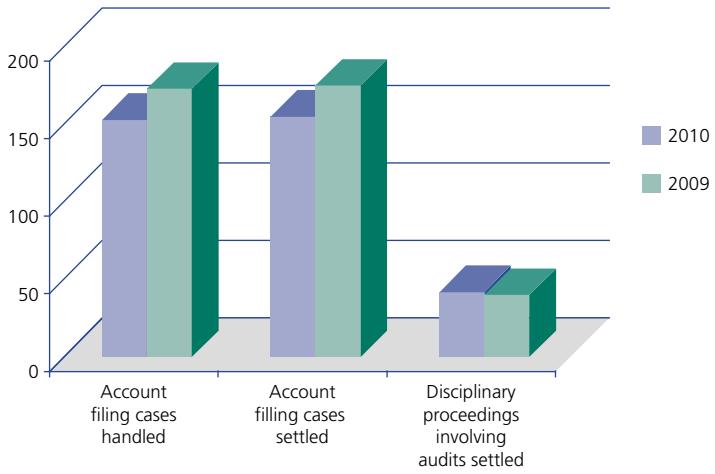
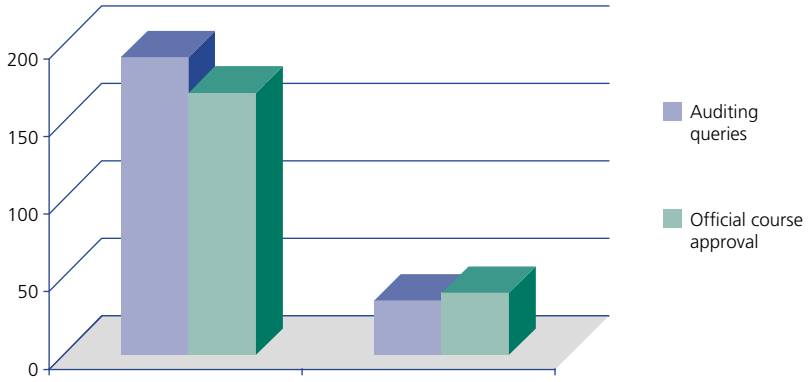
- In 2010, the preparation of various technical auditing standards, both during the phase of subjecting to public information and definitive publication, with the main aim of adapting the technical auditing standards to that set out in the new writing of Law 19/1988 of 12 July on accounting auditing, amended by Law 12/2010, of 30 June, because of the transposition of Directive 2006/43/EC of the European Parliament, were tackled by the work group created for this purpose in which representatives from the corporations representing auditors and personnel from this deputy directorate participated. Therefore:
 - By resolution of 21 December 2010 of this institute amendment of section 3 of the Technical Auditing Standards, regarding technical standards on reports, was published. Previously, this amendment had been subjected to public information processing by resolution of 8 October 2010.
 - By resolution of 21 December 2010 of this institute the technical auditing standard on comparative information was published: comparative figures and comparative annual accounts. Previously, this technical regulation had been subjected to public information processing by resolution of 8 October 2010.
 - By resolution of 7 October 2010 of this institute the technical auditing standard on "fair value", which the previous year had been subjected to public information, was published.
 - By resolution of 7 July 2010 of this Institute the technical auditing standard to prepare the additional report for the annual accounts auditing of Investment Services Companies and their Groups, which the previous year had been subjected to public information, was published.
 - Finally, by both resolutions of this institute, on 22 December 2010, the technical auditing standard on the "relationship between auditors" and the internal quality control regulation of auditors and auditing companies were subjected to public information.
- The Deputy Directorate General for Technical Auditing Standards dictates, by means of the personnel comprising it, the disciplinary administrative files for breach of accounts auditing and obligation to deposit the annual accounts in the mercantile registry and assist the Chairman with preparing the matters under their jurisdiction stated in these files. The number of account filing cases handled increased in 2010 to 153, the number of cases resolved increased in 2010 to 155 and the number of disciplinary cases resolved increased in 2010 to 42.
- The General Deputy Directorate of Technical Auditing Regulations also prepares reports on provisions which affect the scope of accounts auditing activity, it studies and

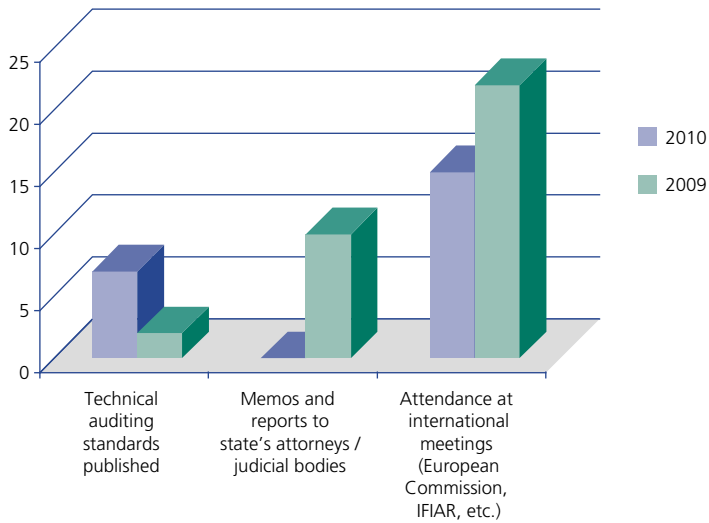
prepares the response to matters put forth in relation to auditing regulations for the accounts formulated. The number of regulatory reports in 2010 was 122 and a total of 192 accounts auditing queries were answered in 2010.

- It is also responsible for executing the competencies attributed to the Institute of Accounting and Accounts Auditing regarding the standardisation of theoretical teaching courses required for access to the Official Accounts Auditor Registry, recognition of the teaching centres which impart these and giving the theoretical training courses and first phase of access to the Official Accounts Auditor Registry. The number of courses standardised during 2010 was 35.
- Finally, during 2010, in collaboration with IT personnel, the work to implant new information technologies commenced by means of the design and putting into operation of new computer applications which collaborate in attaining the aims sought by Law 11/2007, of 22 June, on electronic access of citizens to public services, increasing the efficacy and efficiency of administrations by means of using information technologies and simplifying the administrative procedures among other equally relevant aspects. Currently, sixty per cent of internal administrative procedures are underway.

In short, the specific activities carried out in 2010 were as follows:

ACTIONS RELATED TO TECHNICAL STANDARDS	2010	2009
Auditing queries	192	169
Official course approval	35	40
Account filing cases handled	153	173
Account filing cases settled	155	175
Disciplinary proceedings involving audits settled	42	40
Regulatory reports	122	72
Technical auditing standards published	7	2
Memos and reports to state's attorneys / judicial bodies		10
Attendance at international meetings (European Commission, IFIAR, etc.)	15	22





OVERSIGHT OF ACCOUNT AUDITING ACTIVITY

Introduction

Article 27 of the Revised Text of the Accounts Auditing Law attributes to the ICAC the capacity to govern the public supervision system. Article 28 of the aforementioned Revised Text also stipulated that monitoring accounts auditing activity will include technical monitoring and quality control.

Technical monitoring consists of investigating certain audits or aspects of auditing activity to determine events or circumstances which could constitute a failure of the audits or the auditor's work to abide by the terms of the laws governing audits.

Quality control consists of periodically inspecting or reviewing the work of auditors or audit firms in order to improve the quality of the audit work, primarily by means of the formulation of requests for improvement.

The ICAC's Deputy Directorate of Technical Control is responsible for supervising the activities of the auditing profession.

In this regard, additional provision eight of the new legal text establishes that “the Accounting and Auditing Institute will publish an annual report containing, at the very least, the Institute’s programmes or plans of action, a report on the activities carried out, general results, and conclusions reached in relation to the quality control system”.

Audit control activities carried out in fiscal year 2010

During 2010, work has continued on a new quality control inspection system for auditing firms that audit the accounts of public entities, which includes the following tasks:

- Commencing the review of quality control procedures in two of the big four firms.
- Commencing the review of quality control procedures in 30 medium-sized firms that audit the accounts of public entities.
- Investment in the implementation of two management software applications designed to facilitate the development and control of the Deputy Directorate’s primary functions.
 - The first one is an application designed to facilitate the work and documentary management associated with reports and investigations at both the technical control stage and the preliminary investigation stage. This application is being developed internally by personnel from the Deputy Directorate of Technical Control in collaboration with IT personnel. This is under development, considerable effort having been made mainly on programming during 2010.
 - As for the second application, in the last quarter of 2009 a computer application called PAWS was acquired to develop the quality control function from a dual perspective:
 - 1) By establishing standardised procedures for conducting inspections of the quality control systems of auditing firms.
 - 2) By creating a centralised and easily accessible data repository which will make it possible to consult the documentation on all of the inspections carried out. With this application it is possible not only to consult specific inspections but to obtain global tracking and monitor reports as well.

The program was acquired and installed in November 2009 and two training courses were planned for personnel of the Deputy Directorate of Technical Monitoring. The first training session took place in December 2009 and the second in April 2010.

The Deputy Directorate’s activities focused on audit control can be broken down into the following two types:

1) Technical control or investigation

In 2010 there were 109 direct investigations of audits carried out directly by ICAC. 74% of these yielded satisfactory results while the remaining 26% required additional action to confirm or rule out the presence of possible violations by the auditor or auditing firm of the terms of the Audit Law, the regulations or the Technical Auditing Standards.

2) Quality control or inspections

These consisted of inspections directly by ICAC employees and quality control supervision performed by auditors corporations by virtue of agreements subscribed with the ICAC.

423 inspections were carried out under the quality control collaboration agreements signed with auditors' corporations and of the direct quality control efforts of those organisations, which represents a 6.5% increase compared to the previous year.

As for the results of supervision on the quality control made by corporations by virtue of agreements subscribed and in relation to the previous year, in 2010 the percentage represented by the revisions which had satisfactory results on the total revisions made, reduced by 45%. The change in trend of this data has to be interpreted considering that the new quality control commenced in 2010:

- This has had an effect, not only on verification of compliance with the Technical Standard on Quality Control from 1993, currently in force, but also on aspects considered in the new Technical Standard of internal quality control (NCCI), whose publication was carried out on 22 December 2010, by which the international standard for quality control number 1 is incorporated into our legal regulations (ISQC1).
- Its aim is to improve the quality of auditing work, mainly by means of formulating requests for improvement.

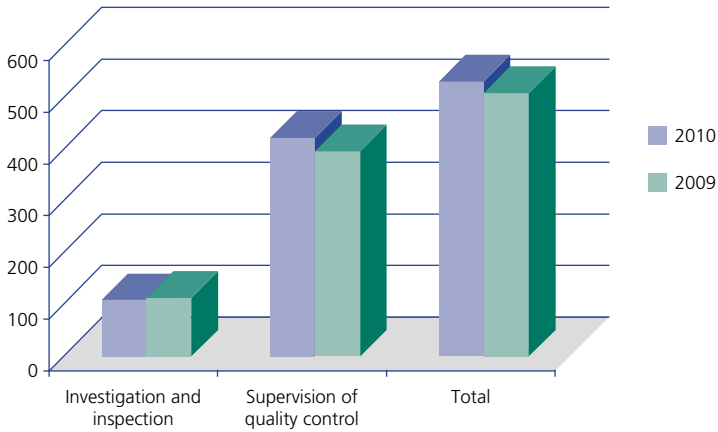
We must continue to improve and make progress on boosting internal quality control, which will be a priority objective with the new quality control approach, the effects of which will become more noticeable in the future.

3) Summary of quality control activities in 2010.

The comparison between the quality control activities carried out in 2010 and 2009 is shown below:

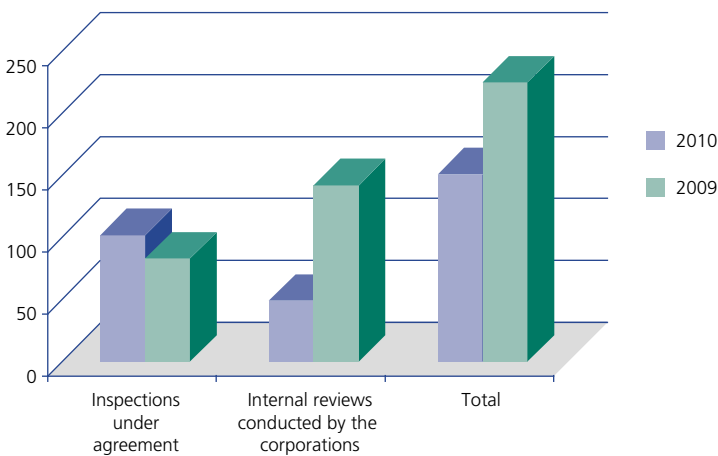
ICAC actions	2010	2009
Investigation and inspection	109	113
Supervision of quality control by corporations	423	397
TOTAL	532	510

ICAC actions



Actions of Corporations	2010	2009
Inspections under agreement	102	83
Internal reviews conducted by the corporations	49	142
TOTAL	151	225

Actions of Corporations



Activities programmed for 2011

1. Investigations and inspections

1.a) *Technical control or investigation*

The technical control action plan for 2011 is based on the following aspects:

- Information obtained from third parties or public registers.
- Justified requests from other administrative bodies.
- Those that may arise, as appropriate, from the supervision of quality controls made by virtue of the collaboration agreement signed with corporations.
- Those which, as appropriate, may derive from follow up of auditors or auditing companies.
- Risk parameters: economic sectors at risk, failure to report to the Official Register of Public Auditors (ROAC), analysis of information consistency, non-membership of any organisation, etc.
- Selective follow up of timely aspects such as turnover of signatures and issue of transparency reports which determine the revised text of the LAC, among others.

Normally, inclusion criteria in the case of technical control, will deal with covering the risk of possible deficiencies and signs of breach of technical regulations in accordance with the criteria to obtain information regarding the first paragraph of this section. Technical control foreseen to be carried out during the year mentioned is between 70 and 80, without detriment to possible variations of 15%.

1.b) *Quality control or inspection*

According to the new model, the quality control methodology will consist of evaluating the auditors' internal quality control systems. This method will include, according to the agreed scope, the description, assessment and review of internal quality control procedures and their application to specific jobs. Full execution of the new quality control or inspection system referring to its general scope and number of auditors involved has to require a considerable boost in human resources and technical means as to considering compliance with the revision cycles of at least three years for auditors made by public interest companies and six years for the remaining auditors.

Depending on the resources available next year, the Accounting and Auditing Institute plans to focus its attention on obtaining information on auditors' internal quality control procedures, based on the criteria explained below, in order to foster the quality of the auditors' work and lay the foundations for the establishment of a new quality control model as a result of the implementation of the Eighth Directive in Spain by means of Law 12/2010 of 30 June.

Quality control inspections of large- and medium-size firms: Therefore, the actions commenced in 2010 will continue; in 2011, the end of an inspection and for two of the large auditing firms, continuation and commencing inspections is foreseen. As for the 30 medium-sized firms, it is foreseen to complete analysis of their internal control procedures in the course of being carried out over 2010 for 24 of them and advance substantially in the other remaining 6.

With regard to the auditors who conduct Public Interest (PI) audits and all auditors in general, in addition to the actions described above there are plans to promote a culture of quality as an indispensable and unavoidable element for achieving and consolidating improvements in the auditing profession by gathering information on the new quality control system and promoting training as a means of providing generalised knowledge of the new system. It is therefore a general aim for this year to boost the new quality control system, after having set out the general framework for the same by enacting the new Accounting and Auditing Law and the International Standard Quality Control, while the latter will not be definitively required until 1 October 2012. All this without detriment to the progress of carrying out the cycles marked, as appropriate, by the new regulation whose preparation will be foreseen during this year.

1.c) Control of the activity: summary of actions

Considering both the technical monitoring and quality control, in principle, the number of monitoring actions for the activity estimated to be performed stands at approximately 110 without detriment to the variations which may lead to the selective follow up mentioned in section 1.a). Of the direct actions, 70% will focus on technical controls or investigations and the remaining 30% will focus on the quality control of the new system, with an emphasis on obtaining information on the internal quality control procedures of the large and medium-sized firms responsible for auditing the accounts of public entities and whose auditing work exceeds a certain number of hours.

2. Supervision of quality control.

The revised text of the Accounting and Auditing Law, in its third additional provision, referring to performing the quality control, sets out the following:

"1. The Accounting and Auditing Institute may entrust the quality control function to the corporations that represent auditors, acting under the supervision of the Institute.

Furthermore, the Accounting and Auditing Institute will use an objective procedure to select other third parties that may perform the quality control function. These third parties must meet the following requirements:

- a) They must be non-practicing auditors who do not work for an audit firm.*
- b) They must be independent from the auditors who are bound by the quality control rules and unaffected by any possible influence on the part of those auditors or other conflicts of interest.*

c) They must be in possession of adequate professional training and experience in the auditing and finance fields, with specific quality control training.

Persons with specific knowledge in any specialised, audit-related fields or sectors may also participate in the execution of the quality control function, as long as they meet the requirements established in letter b) of this section.

2. For the purposes of this provision, those who participate in the quality control function may have access to the auditors' or audit firms' documentation, subject to the secrecy obligation established in article 25 of this Law.

3. The terms of the previous paragraph notwithstanding, all quality control work will be directed and supervised by the public servants employed by the Accounting and Auditing Institute."

In accordance with that set out in the first paragraph of this additional provision, the Accounting and Auditing Institute aims to sign an agreement with the corporations representing auditors, whose aim is performing quality control on firms who do not carry out auditing work in public interest entities.

The selection criteria will deal with the preparation of the start of the 6 year cycle set out in the directive, considering the nature and number of works carried out and considering the progress of implementation which will determine the new regulation of the revised text of the accounts audit law.

In 2011, the Accounting and Auditing Institute will supervise the quality control work performed under the 2011 agreement which will conclude in December of this year.

Under this agreement we will begin to implement the new quality control system which, along with the direct quality control actions, is one of the priority objectives of the Accounting and Auditing Institute in its efforts to enhance auditors' internal quality control procedures as an inherent aspect of increasing the quality of the work performed by the auditing profession.

The number of actions to supervise quality controls, made by virtue of collaboration agreements signed with corporations, is estimated at 300 with variations of approximately 15% of this figure.

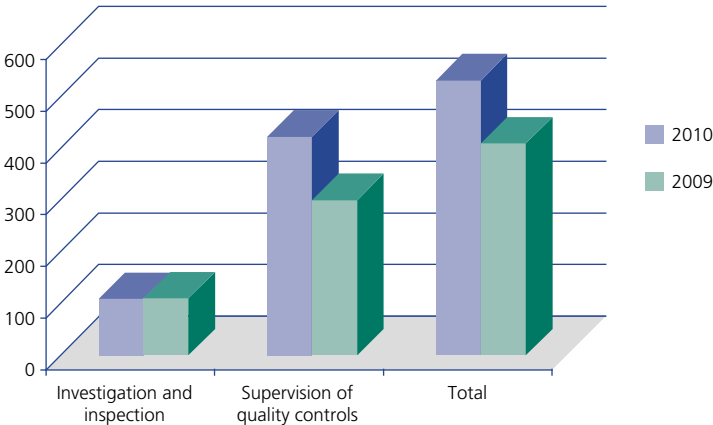
3. Summary of actions planned for 2011.

The tables below contain a summary of the actions planned for 2011 compared to those carried out in 2010:

ICAC actions	2010	2011 ⁽¹⁾
Investigation and inspection	109	110
Supervision of quality controls ⁽²⁾	423	300
	532	410

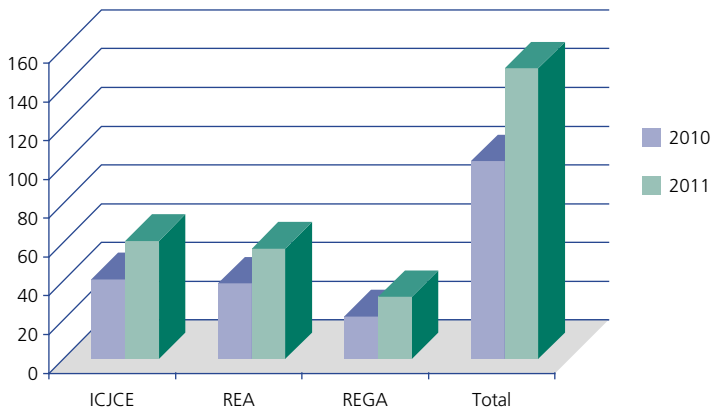
- (1) The number of actions may vary by approximately 15% without detriment to specific selections.
- (2) Specifying the quality controls carried out by means of agreement with the corporations, implies supervision of two reports by each auditor revised, one on their internal quality control system and another on the application of this system in some auditing works.

ICAC actions



Actions of Corporations	2010	2011
Quality control per agreement:		
ICJCE	41	61
REA	39	57
REGA	22	32
	102	150

Actions of Corporations



INTERNATIONAL ACTIVITY

The Deputy Directorates of Technical Control and Technical Auditing Standards participate jointly and on a regular basis in the international meetings of the following organisations:

- European Union committees.
 - Audit Regulatory Committee (AuRC).
 - European Group of Auditors Oversight Bodies (EGAOB).
 - Egaob Subgroup Intra EU Cooperation
 - Egaob Subgroup Inspections
 - Egaob Subgroup ISAS
- International Forum of Independent Audit Regulators (IFIAR).
- Translation Groups of International Standards and Technical Standards.

MANAGEMENT OF RESOURCES AND THE OFFICIAL REGISTER OF AUDITORS

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

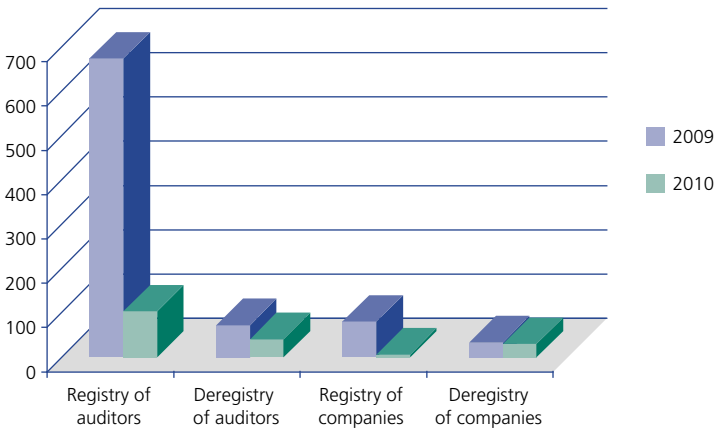
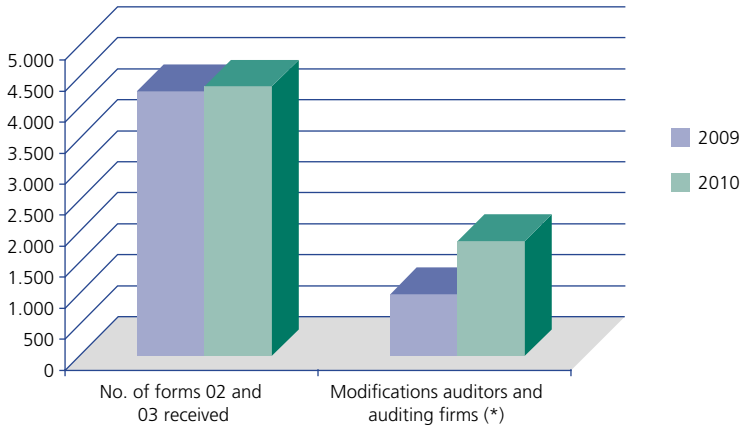
Maintenance of the Official Register of Auditors (ROAC)

Access to the ROAC is by means of complying with the requirements and passing the tests defined in Law 12/2010 of 30 June by which Law 19/1988, of 12 July - in accordance with that set out in Spanish Royal Decree 1636/1990, of 20 December - is amended. Only the auditors who are members of this Register may issue official auditors' reports.

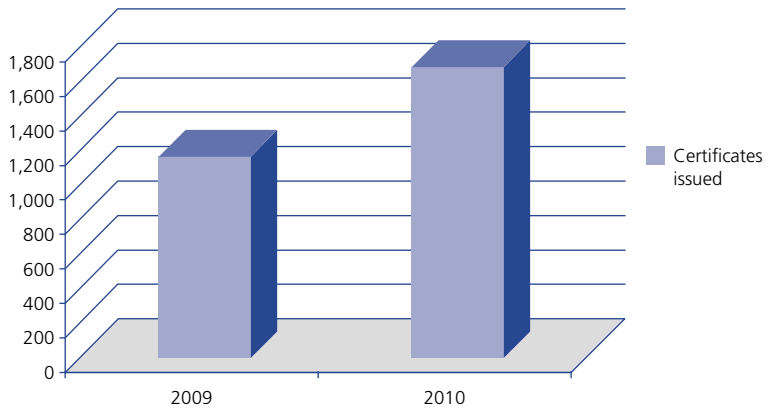
ICAC performed the following activities in relation to ROAC:

ROAC	2010	2009
No. of forms 02 and 03 received	4,266	4,347
Modifications auditors and auditing firms (*)	998	1,850
Registry of auditors	675	104
Deregistry of auditors	73	41
Registry of companies	81	64
Deregistry of companies	34	30
Certificates issued	1,169	1,690
TASA (art.23 LAC): CROSSOVER BETWEEN FORMS 02 / 03		
Proposed settlements	171	671
Amount	104,678.80 €	61,779.84 €
Proposed settlements filed	41	87
Amount	26,676.51 €	11,781.18 €
Provisional settlements	94	465
Amount	56,452.83 €	79,600.89 €
Revenues from proposals or settlements	63	486
Amount settled	56,700.93 €	85,277.74 €
Late payment surcharge (art. 27 LGT)		
No. surcharges	551	299
Amount settled	9,064.48 €	1,448.23

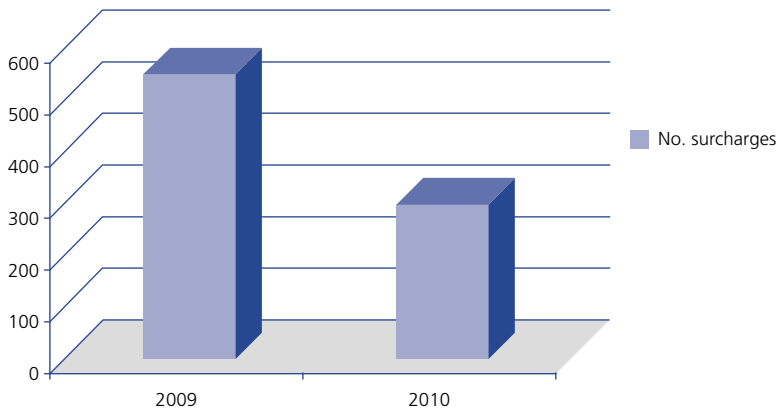
(*) Changes to the auditors' registered addresses are not reflected in the ROAC database, which means that the specific number of changes made cannot be determined.

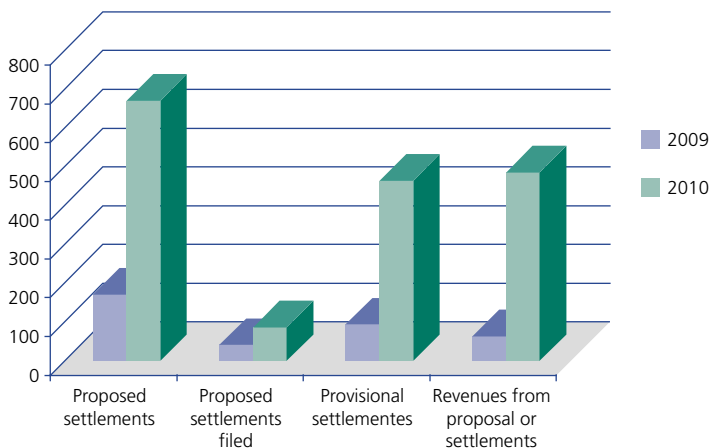


Certificates issued



No. surcharges





Electronic administration

ICAC currently has an electronic sub-site which is part of the electronic site of the Ministry of Economy and Taxation.

According to the terms of Law 11/2007 on the 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 its 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 obtaining 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: <http://icac.gob.es>

On 6 May of this year, a joint resolution was issued by the Undersecretary and the Institute of Public Accounting and Auditing by virtue of which it was agreed that this body would be included in the department's electronic records.

Professional Auditing Evaluation Committee

In 2009, the Professional Auditing Evaluation Committee continued its work according to the terms of Spanish Royal Decree 1837/2008 of 8 November and the thirteenth point of the Order of 19 May 1995 issued in relation to Spanish Royal Decree 1665/1991 of 25 October which regulates the general system for the recognition of higher education degrees in members states of the European Union, which requires at least three years of training for professional Economists, Insurance Actuaries, Business Science degree holders, Chartered Accountants, Auditors and Paymasters. The Committee's work culminated with the aptitude test administered in 2010.

Similarly, during the second semester of 2010 the work of the professional auditing evaluation committee commenced for the new requests whose aptitude examination will be held in 2011.

Regulatory Projects and the Audit Committee

During the year the ICAC worked on 57 regulatory projects and the Audit Committee met seven times.

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

The quarterly publication of ICAC, the Official Bulletin of the Institute (BOICAC), contains information on aspects relevant to the accounting and auditing professions. There is also an Internet website with the most relevant regulatory information and the queries published on accounting and auditing topics are contained in the Institute's Bulletin for general information purposes.

Another study published every year refers to the Auditing Situation in Spain. According to the report on the Auditing Situation in Spain in 2009, published in edition 82 of BOICAC (June 2010), the number of practicing auditors was 4704, of whom 2906 worked as independent contractors and 1798 of whom worked for companies.

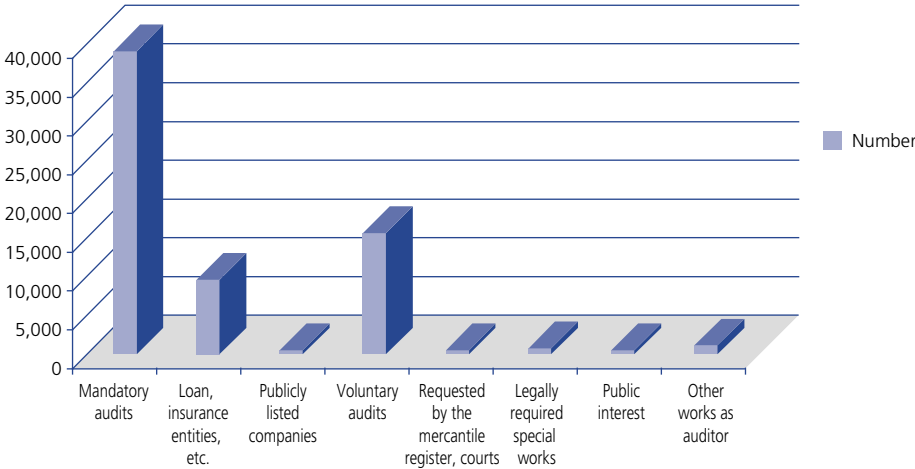
A total of 10,759,060 hours was invoiced, 9,781,080 of which were billed by auditing firms and 977,980 by auditors working as independent contractors.

In 2009, practicing auditors reported a total of 67,891 audits to ROAC.

The breakdown by type of audit is as follows:

TYPE	NUMBER	%
Mandatory audits	39,106	58
Loan, insurance entities, etc.	9,627	14
Publicly listed companies	504	1
Voluntary audits	15,657	23
Requested by the mercantile register, courts	545	1
Legally required special works	769	1
Public interest	505	1
Other works as auditor	1,148	2

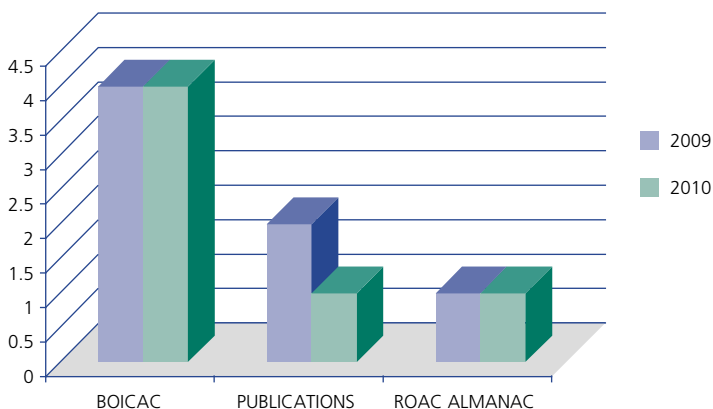
Number



Specific actions in the area of publications during the year 2010 compared to the year before, were as follows:

	2010	2009
BOICAC	4	4
PUBLICATIONS	1	2
ROAC ALMANAC	1	1

Publications



With regard to research work, it should be noted that each year, ICAC, in coordination with the Association of University Accounting Professors (ASEPUC), awards two accounting research prizes, the "Fernández Pirla Award" and the "Carlos Cubillo Award" as well as an award for an excellent doctoral thesis on a research topic in the field of accounting or auditing.

In a further effort to promote an understanding of the accounting profession and research in this field, a database called the Accounting and Auditing Index in Iberian Languages (ICALI) has been developed which includes all of the publications on file in the ICAC library and thus constitutes one of the largest lists of bibliographic titles in the fields of auditing and accounting.

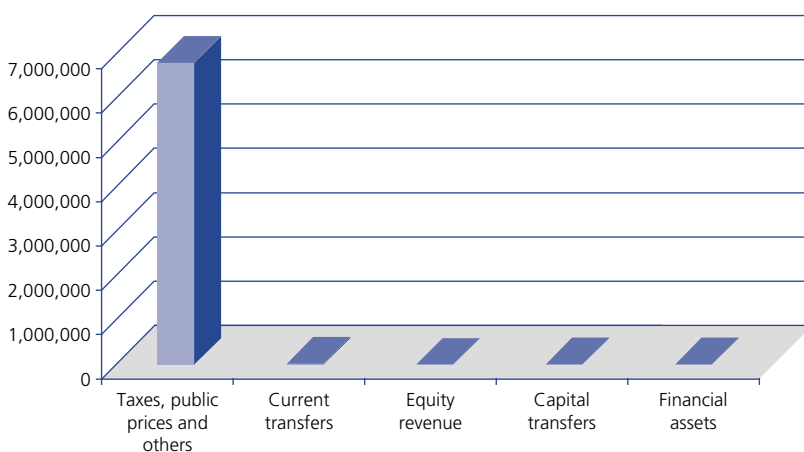
ECONOMIC-FINANCIAL INFORMATION

Economic data

In 2010, ICAC had total revenues of 6836.20 thousand euros, which is broken down in the table below:

Chapter	Execution of revenue budget 2010		%
III	Taxes, public prices and others	6.814.854,40 €	99.69
IV	Current transfers	15.360,00 €	0.22
V	Equity revenue	459,71 €	0.01
VII	Capital transfers	3.390,00 €	0.05
VIII	Financial assets	2.138,90 €	0.03
TOTAL		6.836.203,01 €	100.00

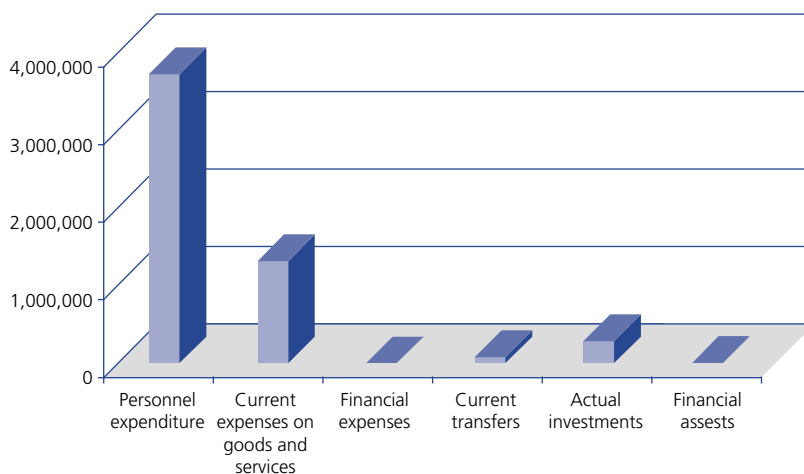
Revenue



In 2010, the expenses incurred stood at 5411.30 thousand euros, as detailed below:

Chapter	Execution of revenue budget 2010		%
I	Personnel expenditure	3.728.621,02 €	68.90
II	Current expenses on goods and services	1.316.373,11 €	24.33
III	Financial expenses	—	0.00
IV	Current transfers	78.987,01 €	1.46
VI	Actual investments	282.265,51 €	5.22
VIII	Financial assets	5.088,80 €	0.09
TOTAL		5.411.335,45 €	100.00

Expenses



Financing sources

ICAC's primary source of financing is the fee charged for issuing audit reports, in addition to the revenues earned on the sale of publications and the funds received from the government.

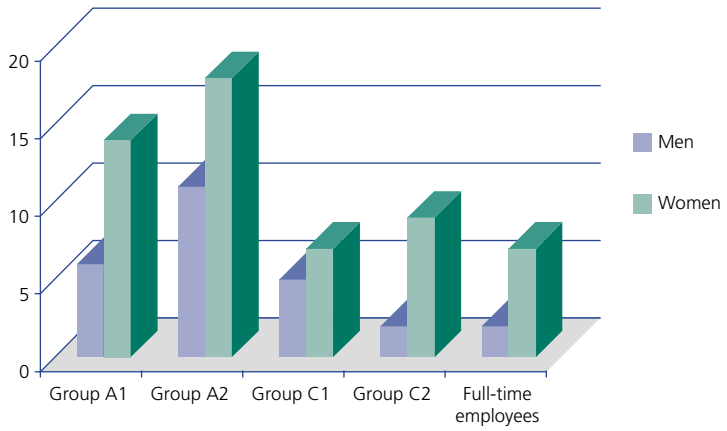
According to article 23 of Law 19/1988 of 12 July, all practicing auditors and auditing firms registered in the ROAC who issue audit reports must pay this fee. The revenues earned from these fees are considered ICAC's budgetary income and are used to finance the cost of overseeing and supervising the auditing profession.

Human resources

The means with which ICAC carried out its functions in 2010 were the following:

TYPES OF PERSONNEL	MEN	WOMEN	TOTAL
SENIOR POSTS	1	0	1
OFFICE TEMPORARY PERSONNEL	0	0	0
CIVIL SERVANTS			0
Group A1	6	14	20
Group A2	11	18	29
Group B	0	0	0
Group C1	5	7	12
Group C2	2	9	11
Professional groups	0	0	0
TOTAL	24	48	72
OTHER PERSONNEL			0
Administrative contracted employees	0	0	0
Various personnel	0	0	0
TOTAL	0	0	0
EMPLOYMENT-RELATED CONTRACTED			0
Fixed Cap I	2	7	9
Fixed I Temporary	0	0	0
Chapter 6	0	0	0
TOTAL	2	7	9

Civil servants and employees





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