

2019 Annual Activities Report

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Accounting and Auditing Institute (ICAC)
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COVER LETTER FROM THE CHAIRMAN OF THE 2019 ACTIVITIES REPORT

The Accounting and Auditing Institute (ICAC) is an essential pillar for the quality of financial reporting in Spain. Its regulatory and supervisory activity has contributed to the quality and reliability of financial reporting, which constitutes a guarantee for the protection of its users.

The ICAC activities report that I present to you refers to Enrique Rubio Herrera's final term as Chairman; therefore, I would firstly like to thank him for his dedication and effort he has put into the institution over the years. The closing year can be considered a year of continuity in ICAC's activity under Enrique's direction, with significant results both in the accounting and auditing fields.

Thus, the preparations started last year in the regulatory field have continued.

Specifically in accounting matters, a highlight is the major draft modification of the General Accounting Plan (GAP), and as a development and complement to this, the draft resolution of the Institute of Accounting and Accounts Auditing, establishing the standards for the recording, valuation and preparation of annual accounts for the recognition of income from sales of goods and rendering of services, which we hope can be completed with its approval and publication this year.

At the same time, within this field we must highlight the resolution dated 5 March 2019 on the presentation of financial instruments and other accounting aspects related to the commercial regulation of capital companies, published in the Official State Gazette (BOE in Spanish) on 11 March. This clarifies the numerous accounting implications of the commercial regulation of capital companies in order to make available, to companies, their auditors, and other users of the accounting regulations, an adequate and systematic interpretation of the accounting aspects derived from the commercial regulation of capital companies as, to date, there was no complete regulation in Spain.

Likewise, in auditing matters, another major draft has continued, the developing regulation of the Spanish Accounts Auditing Law, which culminates the general framework derived from EU Directive 2014/56, amending EC Directive 2006/43, regarding the statutory audit of annual accounts and consolidated accounts, and EU Regulation 537/2014, on the specific requirements for the statutory audit of public interest entities. The ultimate objective of this standard is to increase transparency in the performance of auditors, strengthen the trust in auditing and act over the audit market to increase its efficiency.

Moreover, it has continued with the activity of issuing the queries formulated and preparing mandatory reports regarding the standards developed by other bodies of the Public Administration or other Public Institutions.

In the international field, the Institute has continued with its active participation in different institutions. Participation in bodies such as EFRAG (European Financial Reporting Advisory Group), the Committee of European Audit Oversight Bodies (CEAOB), and IFIAR (International Forum of Independent Audit Regulators) allows the Spanish viewpoint to be taken into consideration, both in the regulatory field and with regard to aspects related to the auditors' supervisory methodology.

It is also worth highlighting the relevant role of presence in EFRAG, making it possible to contribute directly to forming the European opinion in the field of financial reporting, significantly benefiting financial information users and interested parties.

With regard to the activity linked to controlling accounts audits, ICAC has followed a line similar to previous years both in numerical terms and with regard to the type of control activities performed.

In this sense, it seems essential to progress towards a supervisory approach that brings it closer to the regulatory requirements regarding inspections, both in terms of its direction based on a risk analysis and in terms of the number of actions. In this way, the objective of improving the quality of the audit could be achieved through an effective external quality control that has a broader scope than it has had so far, and therefore allows a greater number of auditors to be reached.

This should be the institution's objective in the medium-term, which will improve the credibility of financial reporting and, consequently, more adequately achieve the objective of protecting the interests of its users.

ICAC's actions are essential to contributing to the objective of the reliability of financial reporting. In this action, the accounting scope cannot be separated from that of auditing due both to the undoubted connection between the two aspects and to the benefits derived from the joint and coordinated action in this area.

As established in the European regulations, the supervisory action is developed from the independence of the audit sector. The next steps to modernise the ICAC must include both the methodological improvements and the possibility to respond to the human and technological needs of the Institution, guaranteeing that ICAC reaches the highest levels when fulfilling the function entrusted to it. Responding to those aspects should be a matter of utmost interest for both users of financial reporting and for the audit sector itself, as both the auditors and the supervisor participate in the prestige of the audit profession.

Finally, and from the viewpoint of the operation, ICAC is immersed in a digital transformation process within the global strategic framework of the Digital Transformation Plan of the General State Administration and its Public Bodies. The culmination of this process, together with the quality and professionalism demonstrated by ICAC's staff throughout all these years, will undoubtedly result in improvements in both the efficiency and the quality of the services to be provided by the Institute in the future.

Given the incredibly extraordinary situation that we have been in since March, this cover letter cannot end without taking time to think about all those who have been affected by the pandemic. On my own behalf, as well as that of the Institute I represent, our hearts and thoughts are with those who have been affected by the virus in one way or another, particularly those families who

have lost loved ones, and those who are still unwell at this time; we wish you a speedy and full recovery.

Finally, my deepest thanks go to both the healthcare staff and to all other health workers who have been working tirelessly on the front line since the very beginning to attend to those most in need.

Madrid, July de 2020

SANTIAGO DURÁN DOMÍNGUEZ
*Chairman of the Accounting
And Auditing Institute (ICAC)*

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EXECUTIVE SUMMARY OF THE 2019 REPORT

During 2019, the Accounting and Auditing Institute has carried out its activity in relation to its different functions. So:

Accounting

- In accounting matters, during this financial year, the ICAC Resolution dated 5 March, on the presentation of financial instruments and other accounting aspects related to the commercial regulation of capital companies, was published in the BOE on 11 March 2019. The main objective of this standard is to develop the presentation criteria in the balance sheet of financial instruments (shares, shareholdings, debentures, etc.) in line with the International Accounting Standard adopted by the European Union (IAS-EU 32) regarding this matter, and aims to clarify the numerous accounting implications of the commercial regulation of capital companies, as well as incorporate practical solutions, some in the form of rebuttable presumptions. In particular, it specifies the accounting treatment of social contributions (depending on their different natures and purposes), operations with own shares and shareholdings, correction of errors, distribution of profits, capital increase and reduction operations, issuance of debentures, dissolution and settlement, and structural modifications (such as merger and spin-off operations).

Like in previous financial years, ICAC has dedicated a large part of its efforts to continue developing the following projects:

The draft Royal Decree that modifies Royal Decree 1514/2007, of 16 November, approving the General Accounting Plan (and other standards), which, in line with the convergence approach with the international financial reporting standards adopted by the European Union initiated by Law 16/2007, adapts to our applicable accounting framework in the drawing up of the individual annual accounts of non-financial entities, IFRS-EU 9 and 15, on financial instruments and the recognition of income originating from customer contracts. This draft adapts two very relevant standards approved in accounting matters, incorporating what represents an improvement for the regulatory framework of financial reporting of non-financial entities, which are those that apply to the aforementioned plan. With this, it is intended to keep a suitable balance in the new information 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 adaptation.

In development and as a complement to the above, the draft Resolution of the Institute of Accounting and Accounts Auditing, which establishes the standards for the recording, valu-

ation and preparation of annual accounts for the recognition of income from sales of goods and rendering of services.

During this year, works have started to prepare a draft Resolution of the Institute of Accounting and Accounts Auditing, which establishes the standards for the recording, valuation and preparation of annual accounts for operations between group companies, in accordance with recording and valuation standard (RVS) 21. Operations between group companies, under the terms in which this last concept is defined in development standard 13. Group, multi-group and associated companies of the GAP. The aim is to develop and group together all doctrines issued by ICAC on this matter in its Official Institute Gazette (BOICAC in Spanish), under the perspective of convergence with the international regulations.

- Moreover, during this year, the growing participation in the international forums in which the Institute is present, particularly in the activity of EFRAG (European Financial Reporting Advisory Group), continues to be a highlight.
- Finally, during 2019, this Institute has also continued to dedicate a considerable effort to issuing the queries formulated on the accounting treatment of specific situations and preparing mandatory reports regarding the standards developed by other bodies of the Public Administration or other Public Institutions.

Accounts auditing

- With regard to accounts auditing, it has continued to process the draft developing regulation of the aforementioned Accounts Auditing Law throughout this year. Complying with the legal authorisation contained in this text and with the ultimate aim of providing legal certainty to the application of the regulatory legislation of the accounts auditing activity, specifying the scope of issues regarding which doubts had been raised and making possible the full application of the community regulations and of Law 22/2015, of 20 July, on Auditing.

Additionally, all other actions related to the accounts auditing regulation have maintained a similar pace to that of previous financial years, highlighting the works to adapt the technical auditing standards (ISA-ES) to their new versions, and highlighting in volume, for yet another year, *the queries on specific aspects of the application of the accounts auditing regulations*.

- The disciplinary actions carried out by ICAC in 2019, consisting of the processing of sanctioning administrative proceedings due to breaches in accounts auditing and the processing of sanctioning proceedings due to breaches of the obligation to present annual accounts for filing in the Mercantile Registry, have experienced an increase in the number of proceedings compared to previous financial years. The number of proceedings resolved due to breaches of the technical auditing regulations when carrying out works has decreased compared to the previous year, and the number of proceedings resolved due to breaches of the filing obligation have experienced an increase in the number of proceedings compared to the previous year.
- Likewise, the Institute's activity surrounding the training obligation, both prior and continued, of its auditors, has presented similar levels to those from previous years, with a slight increase in proceedings to standardise theoretical teaching programmes for access to the Official Registry of Accounts Auditors, and a slight decrease in standardised continued training courses. The activity surrounding queries has remained at similar levels to those from previous years.

With regard to the international area, the report highlights the main activities carried out at the international forums in which the Institute participates, through the Spanish Commission of European Audit Oversight Bodies (CEAOB) and IFIAR (International Forum of Independent Audit Regulators).

Control of the accounts auditing activity: inspections and investigations

- During 2019, ICAC's activities focused on the control of accounts auditing have remained at similar levels to previous years, both in terms of the number and type of control activities performed, and in terms of the improvement requirements and deficiencies detected.
- With regard to inspections, in 2019 two scope inspections were completed relating to a large-scale audit firm whose financial year ended in 2018, and a medium-scale audit firm whose financial year ended in 2017. Both audit firms audit public interest entities (PIE).
- With regard to investigative actions, 181 investigative actions were carried out during the 2019 financial year, 48 of which were carried out directly by ICAC and 133 were carried out with the assistance of professional bodies accounts auditors, under the direction and supervision of ICAC. The number of investigative actions carried out has decreased slightly compared to the previous year, caused by the lower number of complaints received.

Digital transformation

- Finally, during 2019 ICAC has driven the development of its own Digital Transformation Plan, within the global strategic framework of the Digital Transformation Plan of the General State Administration (AGE in Spanish) and its Public Bodies (PB), being fully aware of the importance of Information and Communication Technologies (ICT) for society in general, and for this Institute in particular.

The electronic applications of the Official Registry of Accounts Auditors have also continued to be modernised, laying the foundations to move towards a completely electronic management from 2021 in order to improve efficiency in the management carried out from the information that was already received electronically from previous years in the statements of auditors and audit firms. Throughout the year, changes have occurred to these statement forms as a result of improvements in both the management of the registry and the supervision of the audit.

ACTIVITY REPORT CORRESPONDING TO THE 2019 FINANCIAL YEAR

INTRODUCTION

The Accounting and Auditing Institute (ICAC) is an Independent Body, adhered to the Ministry of Economic Affairs and Digital Transformation, which governs its actions through the laws and general provisions that are applicable to it, and especially, for this type of Independent Body, through the provisions of Law 40/2015, of 1 October, on the Legal Regime of the Public Sector, as well as through that established specifically in Law 22/2015, of 20 July, on Auditing, in the developing regulation approved by Royal Decree 1517/2011, and in its Statute approved by Royal Decree 302/1989.

Functions and powers

Article 1 of Law 22/2015, on Auditing (LAC in Spanish) states that, *«accounts auditing will be understood as the activity consisting of the review and verification of annual accounts, as well as of other financial statements or accounting documents, prepared in accordance with the applicable regulatory framework of financial reporting, so long as this activity is aimed at issuing a report on the reliability of these documents that may have effects against third parties»*.

The fundamental mission of ICAC is to exercise the supervisory function. Article 46 of Law 22/2015, on Auditing, establishes that all auditors and audit firms are subject to the public, objective, and independent supervision system established in the Law itself, when exercising the accounts auditing activity defined in article 1 of the Law, as are other people, entities, or bodies whose actions fall within the scope of application of EU Regulation 537/2014, of 16 April.

The same precept states that ICAC is the authority responsible for the public supervision system, and particularly, the following functions:

- a) The authorisation and registration, into the Official Registry of Accounts Auditors, of accounts auditors and audit firms. This registration is necessary to perform the auditing activity in Spain, and the ROAC depends on ICAC.
- b) The adoption of ethical standards, internal quality control standards in the auditing activity, and technical auditing standards under the terms set forth in this Law, as well as the supervision of their proper compliance.
- c) The continued training of accounts auditors.
- d) The regular monitoring of the evolution of the market of accounts auditing services, in the case of public interest entities.
- e) The disciplinary regime.
- f) The inspection and investigation system.

In terms of accounting regulations, the powers of ICAC are contained in article 2 of its Statute, approved by aforementioned Royal Decree 302/1989:

1. The carrying out of technical works and proposal of the General Accounting Plan adapted to the European regulations and to the Laws that regulate these matters, as well as the approval of the adaptations of this Plan to the different sectors of economic activity.
2. The establishment of criteria to develop those points of the General Accounting Plan and of the sectoral adaptations thereof that are deemed relevant for the proper application of these standards, which will be published in the Institute Gazette.
3. The permanent improvement and updating of accounting planning, whose purpose will be to propose the legislative or regulatory modifications necessary to coordinate them with the provisions emanating from the European Union or in accordance with the accounting progress itself.
4. The carrying out and promotion of the investigation, study, documentation, disclosure, and publication activities necessary for the development and improvement of the accounting standardisation.
5. Coordination and technical cooperation in accounting matters with International Bodies, and particularly with the European Union, as well as with National Bodies, whether they are public law corporations, associations, or dedicated to investigation.

Governing Bodies of ICAC

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

The Chairman, with the category of Managing Director, will be appointed by the Government, at the proposal of the Minister of Economic Affairs and Digital Transformation, and will hold the legal representation of ICAC, exercising the powers assigned to them by this Law and those that are legally determined.

Audit Committee, which is the body to whom the issues related to the following matters must be submitted for consideration by the Chairman: Determination of the rules to be followed by the professional aptitude tests required for access to the ROAC, as well as the calls thereof that are approved and published by Ministerial Order; publication of the auditing, ethical and internal quality control standards that are developed, adapted or reviewed by the public law professional bodies those who perform the accounts auditing activity or, where appropriate, by ICAC; the proposals for legislative or regulatory modifications that are submitted to the Minister of Economic Affairs and Digital Transformation regarding the regulations governing the accounts auditing activity; the continued training standards; resolution of queries raised to ICAC by accounts auditors as a result of performing this activity, so long as they are considered to have general interest; and any others deemed relevant by the Presidency, excluding those related to exercising the sanctioning power.

The Audit Committee will be chaired by the Chairman of ICAC and will be formed by a maximum of thirteen members appointed by the Minister of Economic Affairs and Digital Transformation, with representatives of the General Directorate of Insurance and Pensions, the Ministry of Finance through the General Intervention Board of the State Administration, the Court of Auditors, cor-

porations representing auditors, the Bank of Spain, the National Securities Market Commission, the Government Attorneys Office, the judicial or legal profession or mercantile registrar, universities, and an expert of recognised prestige in accounting matters and accounts auditing.

Accounting Council, which is the competent body, once the Accounting Advisory Committee has been heard, responsible for evaluating the suitability and adequacy of any regulatory proposal or interpretation of general interest in accounting matters with the Conceptual Accounting Framework regulated in the Code of Commerce. To this end, it will inform the competent bodies and authorities before the approval of the accounting standards and their interpretations, issuing the corresponding non-binding report.

The Accounting Council will be chaired by the Chairman of ICAC, who will have the casting vote, and will be formed, together with him, by a representative of each of the remaining centres, bodies or institutions that have attributed regulatory powers in accounting matters to the financial system: Bank of Spain, National Securities Market Commission, and the General Directorate of Insurance and Pensions. One public employee of the Accounting and Auditing Institute will attend, and may speak but not vote, as Secretary of the Board.

One representative of the Ministry of Finance, appointed by the head of the Department, will also form part of the Accounting Council, and may speak but not vote.

The Accounting Advisory Committee is the advisory body to the Accounting Council. This Committee will be formed by accounting experts of recognised prestige in relation to economic-financial information, representing both the public administrations and the different sectors involved in the development, use, and disclosure of this information.

Administrative Structure

The Institute is structured into the following units, with organic level of General Directorate:

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

The *General Secretariat*, within the powers that the Body has attributed through Law 22/2015, is responsible for: the study, proposal, and management of the staff policy affecting the Independent Body; obtaining, ordering, and guarding the bibliographic and documentary material, both national and foreign, of interest in accounting, financial, and auditing matters; the management of material resources, buildings and facilities; internal functions, economic, accounting and budgetary management, and generally all those of an administrative nature, as well as the organisation and maintenance of the Official Registry of Accounts Auditors and the publication of the ICAC Gazette.

The Official Registry of Accounts Auditors consists of three sections: one referring to individuals, another to companies, and a third referring to accounts auditors, companies, and other auditing entities from third-party countries referred to in articles 10.3 and 11.5 of Law 22/2015. The updated list of registered accounts auditors is published regularly from the first two sections, specifying their names and corporate addresses, as well as, in the case of registered companies, the following points:

- Corporate address.
- Name and surname(s) of each partner, indicating who exercises the administrative or management functions.
- Name and surname(s) of the accounts auditors at the service of the Company.

This information is completed in accordance with that established in Law 22/2015 and in the developing regulation approved by Royal Decree 1517/2011.

The *General Directorate of Standardisation and Accounting Technique* is responsible for carrying out the necessary works related to: the preparation and proposal of the General Accounting Plan adapted to the European Union Directives; the adaptation thereof to the different sectors of economic activity; analysis and proposal of the regulation in which the accounting principles are established, as well as the promotion and development of their application and the proposed resolution of the queries made about accounting standardisation; the development, updating and improvement of analytical accounting; preparation of reports on the provisions that affect the development of the Company's accounting in any way or the content and structure of the annual accounts, and generally all works aimed at updating and improving the accounting standardisation.

The *General Directorate of Technical Auditing Standards* is responsible for: carrying out audit studies; coordinating and promoting the selection, training and improvement of the accounts auditors carried out by the public law professional bodies accounts auditors and accounting experts or, additionally, by the Institute itself, submitting, to the Institute Chairman, the acts for which it has the power relating to the standardisation of the theoretical training courses that must be followed in order to be able to perform the accounts auditing activity (by registering in the ROAC), and those that meet the requirements for the purposes of waiving the aptitude test for the aforementioned access, as well as with the recognition of the centres authorised to offer continued training activities and the approval thereof carried out by certain institutions; analysing the technical accounts auditing, ethical and internal quality control standards of the auditors drawn up by the public law corporations, in order to ensure that they are in accordance with the general principles and the commonly accepted practice; the instruction, through the staff that integrates it, of the sanctioning proceedings due to breaches in accounts auditing matters referred to in Title III of Law 22/2015, of 20 July, on Auditing, and the sanctioning proceedings by it in the Member States of the European Union, proposing to the Chairman their publication in the Institute Gazette, as well as the requirement for these corporations to develop, adapt or review the technical auditing standards; the development, adaptation or review of these, in breach of the obligation to file annual accounts in the Mercantile Registry, referred to in chapter VI of Royal Legislative Decree 1/2010, of 2 July, submitting to the Chairman the proposed resolution of the proceedings, and other acts for which it has the power; and the issuance and development of proposed accounts auditing regulations, as well as the study and response to queries raised in relation to this matter.

The *General Directorate of Technical Control* is responsible for: exercising the powers that the Accounts Auditing Law awards to ICAC in investigations and inspections, specifically: proposing the audit engagements that must be reviewed ex officio by the Institute and carrying out inspections of audit firms; performing the review works deemed necessary for the investigation of audit works or other aspects of the auditing activity, as well as the inspection of audit firms; preparing technical control reports (investigations) with special reference, where appropriate, to the circumstances that signify a breach of the Accounts Auditing Law or of the technical accounts auditing standards, as well as the issuance of inspection reports of the audit firms, with the proposal of the improvement requirements deemed necessary.

ICAC may agree to perform inspections with professional bodies auditors or with third parties. In both cases, the supervision and direction of quality control will be carried out by public employees who provide their services at ICAC. Based on the entry into force of EU Regulation 537/2014, of 16 April, on the specific requirements for the statutory audit of public interest entities, professional bodies accounts auditors cannot participate in the inspection of audit firms that audit public interest entities.

The aforementioned administrative structure develops the following matters:

- Accounting Regulations.
- Legislation in Accounts Auditing.
- Accounts Auditing Regulation.
- Control of the Accounts Auditing Activity (inspections and investigations).
- Disciplinary Activities. Management of Resources and the Official Registry of Auditors (ROAC).

The activities developed by the different directorates of ICAC in the 2019 financial year are described in the following sections.

ACCOUNTING MATTERS

The activities carried out by the General Directorate of Standardisation and Accounting Technique in 2019 were as follows:

- a) Resolution of the Institute of Accounting and Accounts Auditing, approving the criteria for presenting financial instruments and other accounting aspects related to the commercial regulation of capital companies.

On 11 March 2019, the ICAC Resolution dated 5 March was published in the BOE, on the presentation of financial instruments and other accounting aspects related to the commercial regulation of capital companies, with the aim of developing, on the one hand, the presentation criteria in the balance sheet of financial instruments (such as shares, shareholdings and debentures) in line with the international reference regulations adopted by the European Union (ISA-EU 32: Financial instruments. Presentation), and that must be followed both by the company that issues them and the partner or investor who subscribes or acquires them.

On the other hand, the published Resolution aims to clarify the numerous accounting implications of the commercial regulation of capital companies. In particular, it specifies the accounting treatment of social contributions (depending on their different natures and purposes), operations with own shares and shareholdings, correction of errors, distribution of profits, capital increase and reduction operations, issuance of debentures, dissolution and settlement, and structural modifications (such as merger and spinoff operations).

To date, there was no complete regulation of the accounting implications of the commercial regulation of capital companies in Spain. The purpose of the standard is to improve the quality and transparency of the financial information published by companies, making it easier for users of this information to make economic decisions by providing greater legal certainty to the accounting record of these operations.

In this sense, the Resolution incorporates practical solutions, some in the form of rebuttable presumptions, in accordance with the principle of proportionality in that solutions have been collected once it has been confirmed that there are no other less restrictive options.

In addition to the processes for prior query and public hearing, the Resolution has been developed at ICAC with the participation of a large group of experts representing all users affected by the standard, including, among others, representatives of the Ministry of Justice, accounting professors and University professionals, representatives of the National Securities Market Commission, the Bank of Spain, the General Directorate of Insurance and Pensions, the General Intervention Board of the State Administration, the General Council of Economists of Spain and the Spanish Institute of Chartered Accountants, representatives of listed companies, representatives of issuing associations of accounting principles and criteria, which has contributed to greater success and technical consensus in the regulation contained therein.

The Resolution applies to the financial years beginning from 1 January 2020, although it could be applied during 2019 to those situations that would not have involved a change of criteria with respect to the interpretations published by ICAC.

- b) Development of the draft that modifies the General Accounting Plan approved by Royal Decree 1514/2007, of 16 November; the General Accounting Plan for Small and Medium-

Sized Companies approved by Royal Decree 1515/2007, of 16 November; the Standards for the Formulation of Consolidated Annual Accounts approved by Royal Decree 1159/2010, of 17 September; and the Adaptation Standards of the General Accounting Plan to non-profit entities approved by Royal Decree 1491/2011, of 24 October.

The draft Royal Decree modifies the General Accounting Plan and its complementary regulations (standards for the formulation of consolidated annual accounts and adaptation standards of the GAP to non-profit entities) to adapt these texts to the recent accounting regulations of the European Union on financial instruments and recognition of income from ordinary activities.

The General Accounting Plan for Small and Medium-Sized Companies is modified with a very limited scope, consisting of introducing a technical improvement in the presentation rule of capital increases, as well as aligning the definition of fair value to the concept incorporated in the General Accounting Plan.

The objectives of the standard can be summarised as follows:

- Coordinate our accounting structure with the international accounting structure in matters of financial instruments and recognition of income, in accordance with the simplification, proportionality, and adequacy criteria.
- Reform the GAP and its complementary provisions from the perspective of the relevance of the new international criteria for non-financial companies.
- Analyse the international criteria from a critical perspective so as to not include, in the GAP and its complementary provisions, the rules that are not deemed to improve the relevance and reliability of the financial reporting of the entities that apply the GAP.

During this financial year, and in compliance with the provisions of article 26.5, paragraph four, of Law 50/1997, of 27 November, of the Government, the corresponding and necessary internal administrative procedures have been followed, gathering, in addition to the mandatory reports and opinions, such as the report of the General Technical Secretariat of the current Ministry of Economic Affairs and Digital Transformation, the reports of the General Technical Secretariat of the Ministry of Finance, the Ministry of Justice, and the Ministry of Industry, Commerce and Tourism, as well as all studies and queries deemed appropriate to guarantee the correctness and legality of the text.

In this sense, the Institute has analysed all observations received by these bodies of the Public Administration or other Public Institutions through an exhaustive and revised study of each of them to decide, where appropriate, whether or not to include, into the text of this draft, the reflections that improve the relevance and reliability of the financial reporting of the entities that will apply this text.

This is expected to be approved in the 2020 financial year, once the opinion of the Council of State has been issued.

- c) Draft Resolution of the Institute of Accounting and Accounts Auditing, Resolution of the Accounting and Auditing Institute that establishes the standards for the recording, valuation, and preparation of annual accounts for the recognition of income from sales of goods and rendering of services.

The resolution constitutes the regulatory development of the criteria for the recognition of income from sales of goods and rendering of services.

The objectives of the standard can be summarised as follows:

- Achieve the necessary standardisation between the international accounting regulations and our accounting structure in the recognition of income from the sale of goods and rendering of services, which has already been used as a reference to draft recording and valuation standard (RVS) 14. Income due to sales and rendering of services of the General Accounting Plan.
- Improve the quality of financial reporting, particularly in the recognition of income, so that they will be recognised when the company transfers the control of goods or services to customers for the amount that reflects the consideration to which the company expects to be entitled.
- Establish the criteria for the recognition of income, based on a sequential 5-stage process, which begins by establishing the rules that allow the contract to be identified (including the guidelines on the combination and modification of contracts). One main aspect of the method is undoubtedly the part dedicated to identifying the obligations to be fulfilled that are explicitly or implicitly accumulated in the agreement.
- In short, to complete and standardise the accounting criteria to be followed in the recognition of income from sales of goods and rendering of services in order to improve the regulatory system and increase legal certainty, following the outline established by the international regulations, by regulating in detail a greater casuistry for which, in some operations, the practice had been heterogeneous.

During this financial year, and in compliance with the provisions of the fifth additional provision of Royal Decree 1046/2018, of 24 August, which develops the basic organic structure of the Ministry of Economy and Business (now the Ministry of Economic Affairs and Digital Transformation), this Institute requested a report from the Ministry of Finance. Also in compliance with the provisions of article 26.5, paragraph four, of Law 50/1997, of 27 November, of the Government, it requested a report from the General Technical Secretariat of the Ministry of Economic Affairs and Digital Transformation to guarantee the correctness and legality of the text.

In addition to the processes of prior query and public hearing, and like with the developing draft, the Resolution has been developed with ICAC and with the participation of a large group of experts representing all users affected by the standard, which has contributed to greater success and technical consensus in the regulation contained therein.

In this sense, the Institute has analysed all these observations presented, as well as those received by other bodies of the Public Administration or other Public Institutions, through an exhaustive and revised study of each of them to decide, where appropriate, whether or not to include, into the text of this draft, the reflections that improve the relevance and reliability of the financial reporting of the entities that will apply this text.

- d)** Works to develop the draft Resolution of the Institute of Accounting and Accounts Auditing, which establish the standards for the recording, valuation, and preparation of annual accounts for operations between group companies.

The General Accounting Plan (GAP), approved by Royal Decree 1514/2007, of 16 November, regulates recording and valuation standard (RVS) 21. Operations between group companies, the operations carried out between group companies, under the terms in which this last concept is defined in development standard 13. Group, multi-group and associated

companies of the GAP. This standard was the subject of a new wording given by Royal Decree 1159/2010, of 17 September, approving the Standards for the Formulation of Consolidated Annual Accounts (SFCAA).

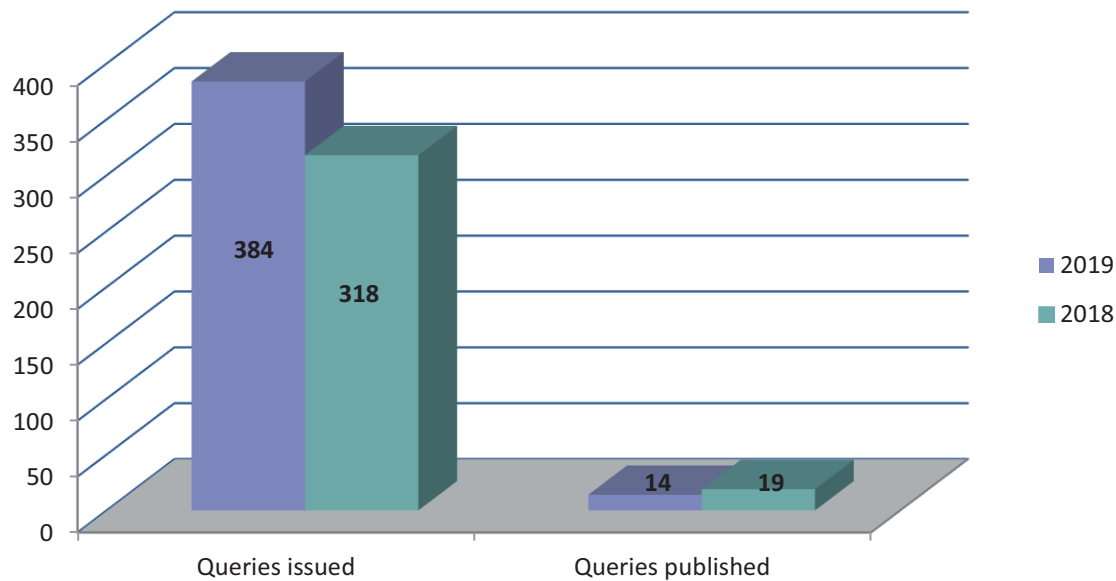
In operations between group companies or related parties, the absence of competing interests requires extreme caution in this analysis to avoid a succession of legal businesses and their corresponding accounting record possibly being the means used to contravene the imperative regulatory standards of capital companies. For this reason, ICAC has been developing what is regulated in RVS 21 through the publication of queries on this matter in its Official Institute Gazette (BOICAC).

Therefore, and taking into account that one of the main reasons underlying the operations of related companies is the issue of valuation and the need to adequately report on them, work is being done to develop a draft that will be analysed by the Working Group that will be established for this purpose within ICAC, and that will be formed by professional accounting experts of recognised prestige, with the aim of developing and grouping together all doctrines issued by ICAC to date.

Also taking into account that the operations between companies under common control is a matter whose regulation is under development within the International Accounting Standards Board (IASB), the competent body to issue the well-known International Financial Reporting Standards (IFRS), based on the developed draft, the Working Group that is established, in the development of the task assigned to it, will work under the perspective of convergence with the international regulations in order to achieve the necessary standardisation between the international accounting regulations and our accounting structure regarding operations between group companies.

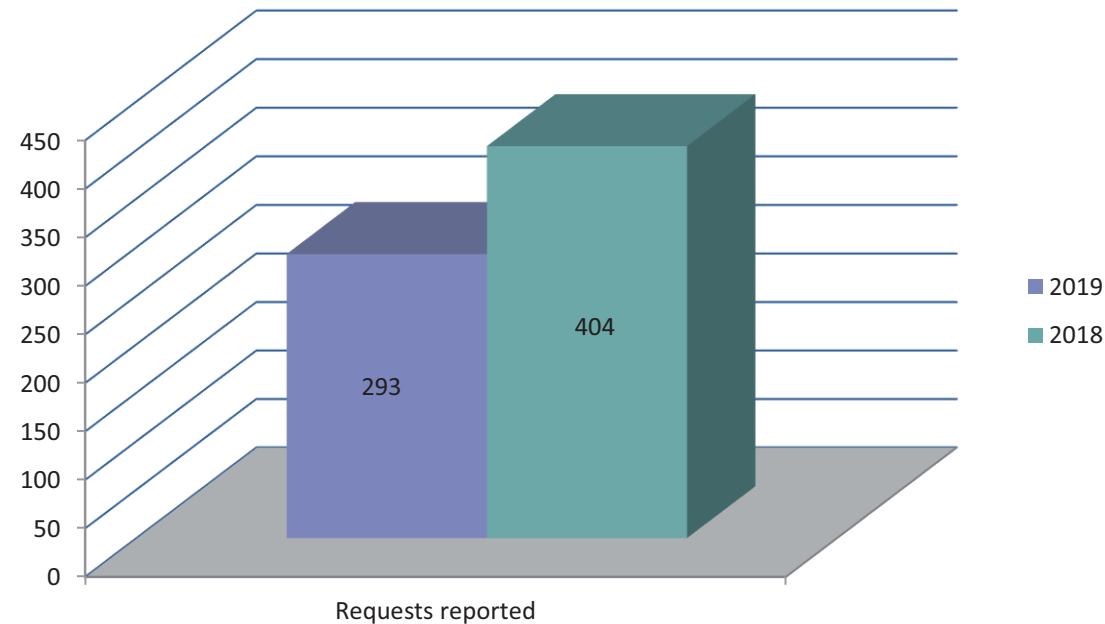
- e) Issuance of queries formulated regarding the accounting treatment of specific situations. Among all queries resolved, those deemed to be of general interest are selected for their quarterly publication in the Official Gazette of this Institute.

QUERIES	2019	2018
Queries issued	384	318
Queries published	14	19



- f) Preparation of mandatory reports regarding the standards developed by other bodies of the Public Administration or other Public Institutions. Specifically, the requests drafted have been:

MANDATORY REPORTS	2019	2018
Requests drafted	293	404



- g) Review of the translations of various International Financial Reporting Standards issued by the IASB and adopted by the European Union through the Accounting Regulatory Committee in order to be published into the Official Journal of the European Union, a work developed by the Translation Committee created for this purpose.

- h) Coordination and technical cooperation in accounting matters with International Bodies, by participating in accounting working groups.

In 2019, it is worth highlighting the continuity of the Institute's commitment to have an even more active presence in the EFRAG (European Financial Reporting Advisory Group), in order to ensure that our country contributes more directly to the development and promotion of European opinions in the field of economic-financial information, so that these valuations are properly considered by the IASB (International Accounting Standards Board) from the beginning in the development process of the international financial reporting standards. The main responsibility of the EFRAG is precisely to convey these opinions in a convincing, clear, and consistent manner after listening to all interested parties, taking into account the specific European circumstances, thus participating in the accounting standardisation process carried out by the IASB, with the legitimacy of representing the European voice. The EFRAG, in addition to carrying out proactive research activities to promote the search for international solutions to accounting issues of concern in Europe, also works to provide advice to the Commission on the adoption of the standards issued by the IASB, including the evaluation of whether they pursue the European public good, that is, evaluating 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 a local level, based on a critical analysis of the European regulations, allows it to face this task with solvency and contribute to enriching the debate on the new pronouncements that are being adopted internationally.

In this sense, ICAC has had the opportunity to participate and comment on draft standards, citing as an example, among others, Draft Standard ED/2019/4 Amendments to IFRS 17 Insurance Agreements, issued by the IASB on 26 June 2019, actively collaborating with the General Directorate of Insurance and Pensions (DGSFP in Spanish). On the other hand, it is worth highlighting the efforts dedicated to EFRAG's investigation project on equity instruments: valuation alternatives, with the aim of responding to the Commission's requirement for technical advice, to analyse whether an alternative treatment for equity instruments than that set forth in IFRS 9 Financial Instruments would be convenient.

Specifically, the Institute's participation in the international field in 2019 is as follows:

- Attendance and participation in meetings of the Accounting Regulatory 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 Board of EFRAG, chaired by EFRAG.
- Attendance and participation in meetings of the General Assembly of EFRAG, chaired by EFRAG.
- Attendance at the meetings of national accounting regulators (National Standard-Setters - NSS), held in Buenos Aires and London, and organised by IFASS (International Forum of Accounting Standard Setters).
- Attendance and participation in the annual meeting of the world standard-setters (WSS), held by the IASB in London for accounting regulators.
- Collaboration with the IASB and EFRAG through the issuance of reports and comment letters on the proposed standards and accounting interpretations of the IASB and the Interpretations Committee, and on EFRAG's comments on them.

- Attendance and participation in the meetings of the working groups of accounting experts (International Standards of Accounting and Reporting - ISAR) within the United Nations Conference on Trade and Development (UNCTAD).
- i)** Collaboration with the Bank of Spain's Central Balance Sheet in the review, and where appropriate modification, of the filing models of individual and consolidated annual accounts in the Mercantile Registries, with the aim of facilitating the understanding of their content, comparability, and a speedy processing, storage and publication by the Mercantile Registry, which are approved by the Ministry of Justice.
- j)** Collaboration with the General Directorate of Insurance and Pensions in analysing IFRS 17 Insurance Agreements, to decide on Spain's position in the debate on the modification of the standard and its future adoption at EFRAG and the ARC.
- k)** Collaboration and assistance in accounting matters at meetings of the Spanish National Sports Council within the Joint Committee for the transformation of clubs into sports corporations.
- l)** Collaboration with the association XBRL España, through the appointment of a member of this Directorate as Chair of the Taxonomy Working Group PGC-2007 and PGCPYMES-2007, and as Chair of the Taxonomy Working Group of the standards for the formulation of consolidated annual accounts, participating in meetings linked to this matter.
- m)** Collaboration with the Ministry of Economic Affairs and Digital Transformation, as well as with other Public Administrations and Institutions, in the resolution of queries regarding non-financial information and diversity.
- n)** Collaboration with the General Intervention Board of the State Administration in relation to the issuance of queries formulated on the accounting treatment of specific situations.
- o)** Collaboration with the General Directorate for Taxation in relation to the issuance of queries formulated on the accounting treatment of specific situations.
- p)** Collaboration with the OECD in the development of questionnaires on the regulation and free competition of the different sectors of activity through POLECO, which acted as coordinator.
- q)** Updating and subsequent review of the text for its disclosure, and publication of the International Financial Reporting Standards adopted by the European Union.
- r)** The carrying out and promotion of the investigation, study, documentation, disclosure and publication activities for the development and improvement of the accounting standardisation.

In exercising the attributed powers, and in accordance with the applicable legislation, the following meetings of the aforementioned collegiate bodies have been held:

- a)** Three meetings of the Accounting Advisory Committee have been held in 2019 (two meetings in 2018).
- b)** Three meetings of the Accounting Council have been held in 2019 (two meetings in 2018).

ACCOUNTS AUDITING

ACCOUNTS AUDITING REGULATION

As has already been outlined, within ICAC, the Directorate responsible for driving the accounts auditing regulations is the General Directorate of Technical Auditing Standards.

This Directorate has counted on 11 members of staff to develop the corresponding functions and attributions, included among which is the regulation of the accounts auditing activity, the development of disciplinary activities, those relating to the training of auditors, and participation in international forums and groups, alongside the General Directorate of Technical Control.

The specific actions carried out in 2019 by this Directorate have been as follows:

Development of regulatory projects

During the 2019 financial year, it has continued with the draft Regulatory Project of the Accounts Auditing Law, pursuant to the authorisation contained in the eighth final provision of this Law.

The purpose of this Regulatory Project is to develop the Accounts Auditing Law to complete the necessary modifications in the regulatory legislation of the accounts auditing activity, which was established in EU Directive 2014/56, of the European Parliament and the Council, dated 16 April 2014, which modifies EC Directive 2006/43, of the European Parliament and the Council, dated 17 May 2006, regarding the statutory audit of annual accounts and consolidated accounts, which also incorporated the options contained in (EU) Regulation 537/2014, of the European Parliament and the Council, dated 16 April 2014, on the specific requirements for the statutory audit of public interest entities, repealing Decision 2005/909/EC of the Commission.

The objectives that this regulatory development aims to achieve are, on the one hand, to establish the standards necessary for the development of the Accounts Auditing Law, therefore complying with the legal authorisation contained in the eighth final provision of this Law, and on the other hand, to specify the specific scope and meaning of certain issues, as well as improve the writing clarity through editorial improvements whilst including certain technical improvements recommended by the accumulated experience.

This is intended to achieve greater legal certainty in the application of the regulations governing the accounts auditing activity, making possible the full application and integration of the aforementioned community regulations.

During the 2019 financial year, it has continued to process the project, at meetings with Corporations of Auditors, in which alternatives were presented for the wording of some articles of the Regulatory Project in order to improve technical or practical aspects thereof.

Reports were received from the General Technical Secretariat of the Ministry of Science, Innovation and Universities, the General Technical Secretariat of the Ministry of Regional Policy, the General Technical Secretariat of the Ministry of Finance, and the General Technical Secretariat of the Ministry of Economic Affairs and Digital Transformation. Reports were also received from the General

Directorate of Registries and Notaries (DGRN in Spanish), the National Securities Market Commission, and the Spanish Data Protection Agency.

On the other hand, the review and adaptation of International Standards on Auditing (ISA) 640 and 720 (revised) started during the 2019 financial year, for their application in Spain as technical auditing standards ISA-ES 540 and 720 (revised), respectively. This process was addressed, together with the professional bodies accounts auditors, in a joint working group. The incorporation of International Standard on Auditing ISA 540 (revised) "Auditing accounting estimates and related disclosures" into the national regulations, for its publication and application in Spain, has taken place as a result of the review and modification of this standard by the International Auditing and Assurance Standards Board (IAASB), as well as ISA 720 (revised), pursuant to the modification of article 35 of the Accounts Auditing Law, operated by Law 11/2018, of 28 December, which regulates the performance of the auditor of annual accounts at various entities and with respect to certain information (statement of non-financial information and different information on listed companies).

The review and modification process of both ISA-ES has ended in the 2019 financial year, and as of the publication date of this report, they have already been published to be submitted for public information.

Other regulatory actions

- a) Preparation of reports on the standards developed by bodies of the Public Administration or other Public Institutions that affect or may affect the scope of the accounts auditing activity.

In the 2019 financial year, the number of reports on regulatory proposals or projects amounted to 15.

- b) Study and preparation of the responses to queries formulated about the interpretation and application of the accounts auditing regulations.

Among all queries resolved, those deemed to be of general interest are selected for their quarterly publication in the Official Gazette of this Institute. Presented below is a summary of activity in this area:

QUERIES	2019	2018
Queries issued	279	332
Queries published	7	9

The queries received have dealt with various aspects in the effective application of the accounts activity regulations, and the most frequent include:

- the audit obligation in certain entities,
- establishment of accounts auditors' fees,
- independence system,
- appointment of an auditor, recruitment times and their revocation,
- registration of auditors from the European Union or from third-party countries into the ROAC, etc.

Certain queries, as they are considered to be of general interest, are published in the Official Gazette of this Institute for the best dissemination of their criteria. In 2019, the queries published in BOICAC were as follows:

Query no.	BOICAC	Matter
1	117/MARCH 2019	On whether the verifier of the statement of non-financial information, in application of that established in Law 11/2018, of 28 December, could be the entity's accounts auditor or what conditions they must meet.
1	118/JUNE 2019	Conditions established in bidding processes for the recruitment of accounts auditors, which could be contrary to the regulations of the accounts auditing activity.
2	118/JUNE 2019	Performance of the accounts auditor and the issuance of their audit report in relation to the management report, when this is presented voluntarily together with the annual accounts.
3	118/JUNE 2019	Interpretation criteria of article 5, sections 1, 4 and 5, of (EU) Regulation no. 537/2014, in relation to the territorial scope to which the circumstances set forth in each section extend.
1	119/DECEMBER 2019	On the application of the personal data protection regulations in the scope of the work of accounts auditing.
2	119/DECEMBER 2019	On the obligation of auditors of the accounts of public interest entities to publish the transparency report regulated in article 13 of (EU) Regulation no. 537/2014.
3	119/DECEMBER 2019	On the possibility to sign the accounts auditing reports with an electronic signature.

- c) Review of the translation of International Standard on Auditing 540 (Revised) «Auditing accounting estimates and related disclosures»
- d) Review of the drafts of the new quality control standards for auditors (Draft International Standard on Auditing (ISA) 220 (Revised) «Quality control for an audit of financial statements»; 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 Draft International Standard on Quality Management 2 (ISQM2) «Engagement quality reviews» published by the IAASB and submitted for consultation, for the purposes of issuing the corresponding comment letters to be sent, together with other competent authorities from other Member States of the European Union (working group of standards of CEA OB) or countries participating in international forums (Working Group for the Coordination of Standards of IFIAR).
- e) Other regulatory actions.

Like in previous financial years, the exercising of the Institute's regulatory auditing powers has also involved other actions such as:

Collaboration with the General Directorate of Registries and Notaries regarding the application of the regulations in order to determine the treatment of specific situations.

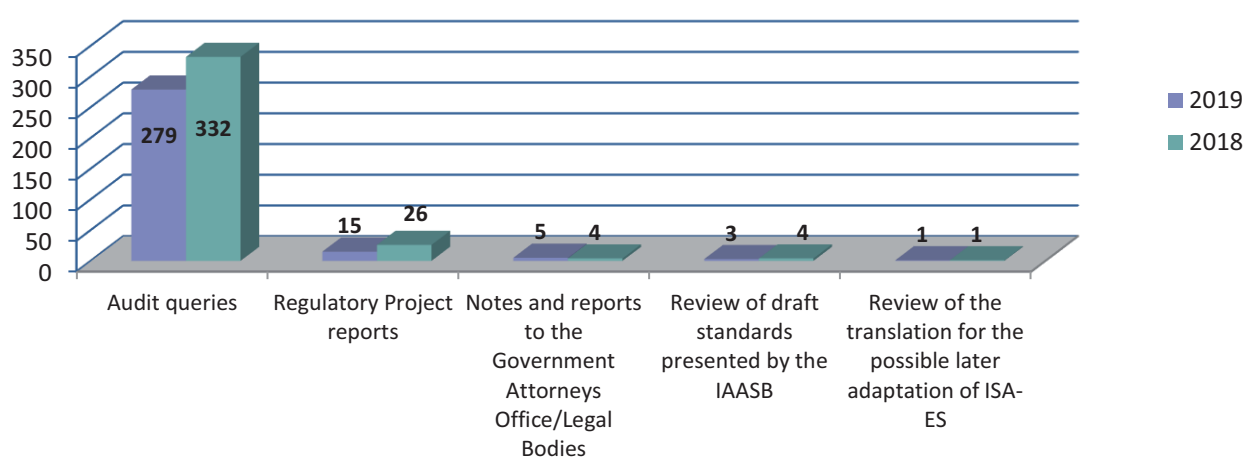
In exercising the attributed powers, three meetings of the Audit Committee have been held in 2019 (four meetings in 2018), to which the matters required by the applicable regulations have been submitted.

During the 2019 financial year, technical assistance has been provided to the Government Attorneys Office regarding the legal challenges to the resolutions issued by ICAC (5 cases).

With regard to the reports of regulatory projects, the reports issued in relation to the Royal Decree Project that approves the Regulation developing Law 22/2015, of 20 July, on Auditing, are included.

REGULATION ACTIONS IN ACCOUNTS AUDITING	2019	2018
Audit queries (includes those published)	279	332
Regulatory project reports	15	26
Notes and reports to the Government Attorneys Office/Legal Bodies	5	4
Review of draft standards presented by the IAASB	3	4
Review of the translation for the possible later adaptation of ISA-ES	1	1

Regulation actions in accounts auditing



TRAINING OF AUDITORS

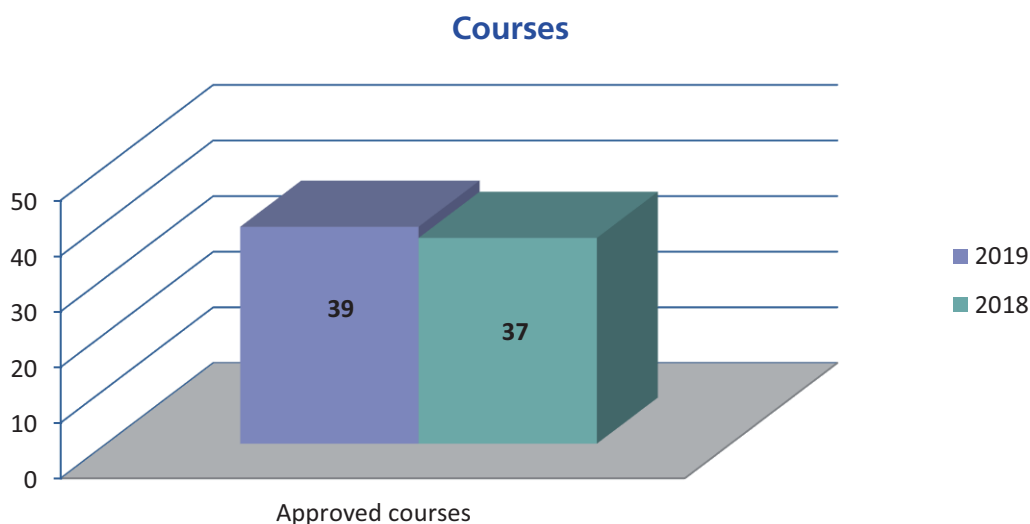
In accordance with the regulations of the accounts auditing activity, the General Directorate of Technical Auditing Standards is responsible for executing the powers attributed to ICAC regarding the coordination and promotion of the selection, training, and improvement of accounts auditors.

Access

In exercising these powers, ICAC is responsible for standardising the theoretical training courses required to access the Official Registry of Accounts Auditors, recognising the centres that teach them, and waiving the theoretical training courses and the first stage of the examination for access to the Official Registry of Accounts Auditors.

During the 2019 financial year, 39 cases to standardise theoretical training courses for access into the Official Registry of Accounts Auditors have been resolved, detailed as follows:

- 31 official degrees valid throughout the whole of Spain (Official University Master's Degrees), which waives the first part of the ROAC access examination.
- 7 university degrees, which are approved as theoretical teaching programmes for access into the ROAC.
- 1 theoretical teaching programme for access into the ROAC, which was authorised to one of the professional bodies auditors.



In this same scope of action, official undergraduate degrees submitted for consideration by the Universities themselves have been evaluated in order to grant them a generic waiver of certain theoretical training subjects already passed to obtain these degrees, as well as individual applications for the waiver of official degrees, detailed as follows:

- 15 partial generic waivers of undergraduate degrees at the request of a University.
- 35 specific waivers of official degrees at an individual's request.

Continued training

In accordance with articles 8.7 of Law 22/2015, of 20 July, on Auditing, and 40 to 42 of the developing regulation of the consolidated text of the Accounts Auditing Law, approved by Royal Decree 1517/2011, of 31 October, accounts auditors must follow and perform continued training activities; as well as justify them as of 1 October 2013 and for the period comprised in the 12 immediately preceding months. For the purposes of this obligation, these activities must be taught by recognised or individually approved centres, in accordance with that established in the Resolution dated 29 October 2012, which develops various aspects related to

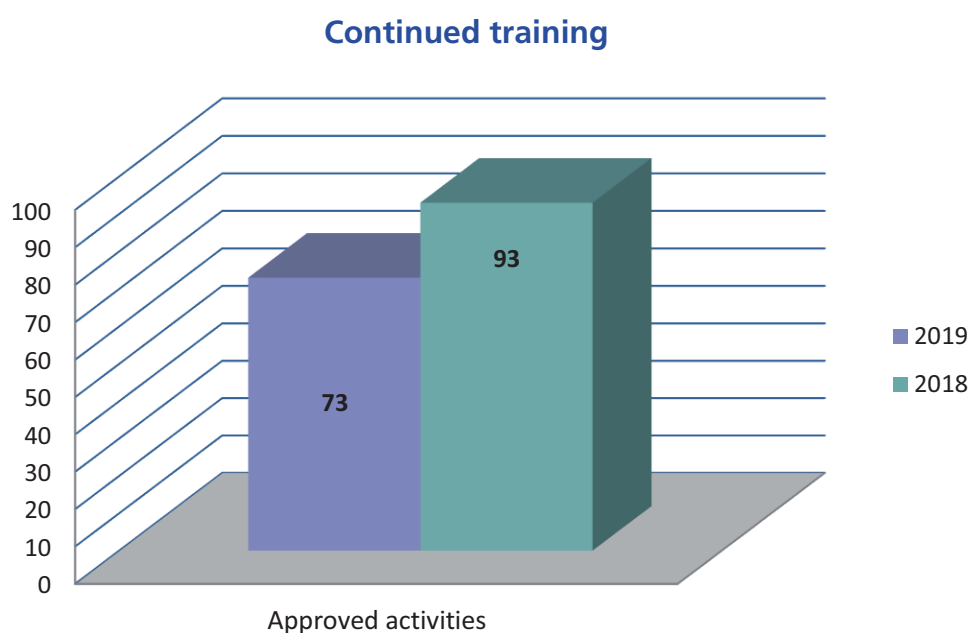
the obligation of accounts auditors registered in the Official Registry of Accounts Auditors, either practising or non-practising and who provide services for an employer, to perform continued training.

In exercising these powers, ICAC is responsible for recognising the centres that are approved to teach continued training activities, as well as the activities determined by certain entities or centres, in accordance with the conditions contained in the aforementioned Resolution.

In the scope of promoting the required continued training, 73 activities, taught by 5 different professional institutions or associations and public centres or institutions, have been authorised, in accordance with the conditions contained in article 23 of the Resolution dated 29 October 2012, which are computable for the purposes of the continued training of accounts auditors.

Together with these centres, it should be noted that the professional bodies accounts auditors are centres recognised by article 8 of the Accounts Auditing Law without the need for prior recognition by ICAC.

likewise, 4 requests for partial waiver of the obligation to carry out continued training due to force majeure have been processed and resolved.



CONTROL OF THE AUDITING ACTIVITY: INSPECTIONS AND INVESTIGATIONS

Introduction

Article 46 of the Accounts Auditing Law (hereinafter, LAC) attributes to ICAC the responsibility of the public oversight system, assigning to this Body, among other functions, the inspection and investigation system, as well as the responsibility and participation in international cooperation mechanisms in the field of the auditing activity.

Both the LAC and the community regulations require the publication of an activities report and the overall results and conclusions reached from inspections of the quality control system.

At the close of the 2019 financial year, the General Directorate of Technical Control had 19 public employees dedicated to both investigation actions and inspections of auditors.

Also during the 2019 financial year, this Directorate has recruited three specialists in matters relevant to financial reporting and auditing to assist in the inspections performed, under the direction and supervision of public employees. In the inspection actions, third parties with specific knowledge in credit institutions, valuations and internal quality control of account auditors have also provided assistance under the direction and supervision of ICAC, in accordance with the authority set forth in article 55 of the LAC.

Investigations are carried out over certain audit engagements or aspects of the accounts auditing activity and aim to determine facts or circumstances that may reveal the existence of possible breaches of the regulations governing the accounts auditing activity.

The inspections consist of the regular review of auditors carried out on the basis of a risk analysis, in order to assess their internal quality control systems and review a selection of audit engagements to assess the effectiveness of these systems in complying with the regulations governing audit activities and, in the event of deficiencies, to make improvements to these systems to improve the quality of audit engagements, with the following frequency required by art. 26 of (EU) Regulation 537/2014, of the European Parliament and of the Council, dated 16 April 2014, on the specific requirements for the statutory audit of public interest entities, and article 54 of the LAC.

Actions to control the audit activity carried out during the 2019 financial year

The auditors who presented a statement regarding, among other issues, the audit engagements carried out during the period from 1 October 2017 to 30 September 2018 amounted to 2,148 auditors and audit firms (1,212 companies and 936 individual auditors).

The control actions over the auditing activity have been carried out directly by ICAC itself, except those relating to the investigation into compliance with the continued training obligation, verifying the formal obligations of the transparency reports, and investigating certain audit engagements that are detailed below, which have been carried out with the assistance of reviewers from professional associations representing auditors under the direction and supervision of public employees of the ICAC.

The control actions carried out in the 2019 financial year have focused on conducting two quality control inspections, completed in 2019, and carrying out the field work of two other inspections, pending completion at the end of 2019; as well as on investigations (which include specific actions on certain audit aspects), totalling 181 investigations, detailed as follows:

	2019		2018	
	Actions carried out directly by ICAC	Actions carried out with the assistance of professional bodies auditors	Actions carried out directly by ICAC	Actions carried out with the assistance of professional bodies auditors
Inspections	2	-	1	-
Investigations	48	133	114	87
TOTAL	50	133	115	87

a) Inspection actions

In 2019 two scope inspections were completed relating to a large-scale audit firm whose financial year ended in 2018, and a medium-scale audit firm whose financial year ended in 2017. Both audit firms audit public interest entities (PIE).

The scope of the inspections completed in 2019 has consisted of reviewing the internal control procedures corresponding, for one of them, to the six elements of the quality control system, and for the other, to five of the six elements of the quality control system, included in the auditing regulations, as well as reviewing the working papers of certain areas corresponding to specific audit engagements (engagements).

Likewise, in the framework of inspections, the General Directorate of Technical Control has participated in 4 European Colleges of Regulators established for each of the four largest European networks of audit firms.

Moreover, the ICAC action plan for 2019 included the carrying out, with the assistance of professional bodies accounts auditors, of inspections of audit firms and auditors that do not audit public interest entities, having signed in November 2019, for this purpose, agreements with the General Council of Economists of Spain and with the Spanish Institute of Chartered Accountants for assistance, under the direction and supervision of ICAC, in the carrying out of 6 inspections of audit firms and auditors that do not audit public interest entities. It is estimated that these actions, with the assistance of the Corporations, will be completed in the first half of 2020.

Below is a summary of the result of the inspections completed in 2019, detailing the main issues of the firm policies and procedures, as well as the review of files of audit engagements in which significant deficiencies were identified in the inspections.

¹ The inspections end with the issuance of the final inspection report, which takes place after having evaluated the allegations of the auditors and the audit firms to the previously issued provisional report, in accordance with the provisions of art. 76 of Royal Decree 1517/2011, of 31 October, approving the developing regulation of the consolidated text of the Accounts Auditing Law, approved by Royal Legislative Decree 1/2011, of 1 July.

a.1) Quality control policies and procedures

The inspection procedures have concluded with improvement requirements² in the following elements of the quality control system:

Elements of the quality control system	Improvement requirements formulated
Quality leadership responsibilities (i)	5
Acceptance and continuance of client relationships and specific engagements (ii)	10
Relevant ethical requirements (iii)	15
Human resources (iv)	9
Engagement performance (v)	10
Monitoring (vi)	2

The main aspects of these improvement requirements are highlighted below:

(i) Leadership responsibilities for quality within the Firm.

Includes the establishment of policies and procedures to:

- Promote an internal culture, where it is recognised that quality in the carrying out of tasks is essential.
- Assign the responsibilities for the operation of the quality control system with the necessary criteria of experience, capacity, and authority.

These responsible parties include the person responsible for monitoring the quality control system, whose responsibilities include the continuous evaluation of the quality control policies and procedures established by the auditors or audit firms, including the cyclical inspection of audit engagements, in order to assess whether they are adequate and relevant in their design, as well as their operational effectiveness, established as a subsequent control of these policies and procedures.

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

- The ultimate responsible for the quality control system must be an auditor registered as practising in the ROAC, as required by the LAC. This responsibility cannot fall on the Partners Board.
- Existence of potential conflicts of interests for the proper exercising of the monitoring function over the quality control system, when the person responsible for this function intervenes both in the implementation of quality control policies and procedures and in the review of the proper implementation, without stating the measures, if any, adopted to exercise the ultimate responsibility over the quality control system with the necessary functional independence.
- The design and implementation of the performance and remuneration evaluation system for the staff involved in the accounts auditing activity, as detailed in the section on human resources, does not reveal the promotion and recognition of quality in the performing of audit engagements.
- The coherence of the actions of the person responsible for the quality leadership of the audit firm, as well as that of those responsible for ethics and human resources, with the policies and procedures established at the company.

(ii) The process of **acceptance and continuance of client relationships and specific engagements.**

The aim is to implement policies and procedures to obtain reasonable assurance that only relationships with audit clients and audit engagements are initiated or continue with those who:

- Have the competence and capacity to conduct the engagement, including the resources and time required to do so (lack of professional risk);
- Can meet the applicable ethical requirements, including the independence requirements (lack of ethical and independence risk);
- Consider the client's integrity and do not have information that may lead them to conclude that the client lacks integrity (lack of customer risk);

In other words, it is a preventive control that must operate effectively before signing the audit engagement letter and starting the audit engagement.

The main improvement requirements refer to the following aspects:

- Compliance with the objectives pursued by this process, through proper documentation regarding the timing and completion of the continuance of client relationships and specific engagements.
- Effective operation of approval controls.
- Establishment of effective preventive controls to avoid accepting audit engagements with respect to those that do not meet the independence requirements.

(iii) Compliance with the requirements regarding the «ethical» element of the quality control system, including those on independence.

The aim is to implement policies and procedures to obtain reasonable assurance that both the audit firm and its staff, as well as all other people and entities to which the aforementioned requirements apply, maintain their independence by identifying and evaluating threats to independence so that it is properly safeguarded or, if not, audit engagements are not accepted or the audit report is not issued.

With regard to the independence policies and procedures, the main improvement requirements are related to the risk of not properly identifying services or situations that could affect independence in the performance of audit engagements. More specifically, the improvement requirements refer to the following issues:

- Adaptation of the independence policies and procedures to the independence requirements in force in Spain, with regard to controlling the perimeter of entities related to the audited entities³ due to significant influence.
- Application of independence confirmations requested from the component auditors, taking into account the independence requirements in force in Spain.
- Lack of controls over the integrity of the databases of entities affected by the independence requirements.
- The existence of policies and procedures to control the interests of the people or entities that may put the company's independence at risk.
- The sufficiency of the evaluations performed to obtain reasonable assurance over compliance with the independence requirements.
- The existence of re-evaluation policies, after the approval of engagements and in cases of contract modifications.
- The carrying out of an appropriate evaluation of services other than those of accounts auditing, in terms of their nature, scope, effects and representativeness of their fees.
- The adaptation of the communications to the Audit Committees, with regard to services other than those of accounts auditing provided to PIEs.

³ In accordance with art. 3.15 of Law 22/2015, of 20 July, on Auditing, the entities related to the audited entity are those that are directly or indirectly related through the existence of a control relationship under the terms referred to in the following section, through the existence of the same decision-making unit, as the audited entity and the other entities are controlled by any means and by one or more natural or legal persons acting jointly or under sole direction by statutory agreements or clauses, or through the existence of significant influence, under the terms set forth in article 47 of the Code of Commerce.

(iv) **Human resources policies and procedures.**

The aim is to provide reasonable assurance that audit firms have sufficient staff members with the competence, capacity, and commitment to the ethical principles necessary to perform the audit engagements in accordance with the account auditing regulations.

The main improvement requirements made in this area refer to the following aspects:

- The use of quality indicators and their influence on the performance evaluation of audit engagements to determine the influence of quality on the performance evaluations of the staff members who participate in the audit activity.
- The influence that quality indicators have on the performance evaluation and on the remuneration of the staff members who participate in the audit activity.
- The allocation of sufficient resources to the different audit engagements.
- The implementation of effective procedures to properly monitor the workload of the staff members who participate in the audit activity.

(v) **Policies and procedures for the engagement performance.**

The aim is to provide reasonable assurance that the audit engagements performed by audit firms are done so in accordance with the regulations governing the accounts auditing activity. This element of the quality control system includes different aspects related to promoting consistency in the quality with which the engagements are performed, the supervision and review responsibilities in the audit teams, making the necessary queries and implementing the resulting conclusions, the quality control review of the engagements of PIEs, as well as all others based on risk criteria, the documentation of the engagement, confidentiality, safe custody, integrity, accessibility and recovery of the documentation of audit engagements, as well as the preservation of this documentation.

With regard to the audit engagements inspected by ICAC, improvement aspects have been revealed in two preventive controls, prior to the issuance of the fundamental accounts audit reports:

- The review in the audit team; and
- The quality control review, by qualified and objective people, of the significant judgments that the audit engagement team makes in the conducting of the audit engagement.

On the one hand, the policies and procedures regarding the review responsibilities are established on the basis that the work performed by the members of the audit team with less experience is reviewed by the members of the team with the most experience. The engagement partner to sign the audit report is responsible for ensuring that these reviews are carried out in accordance with the policies and procedures of the audit firm, and they must, on the date of the report or prior to this, be satisfied that adequate and sufficient evidence has been obtained to support the conclusions reached and the issuance of the audit report, through a review of the audit documentation and discussions with the engagement team.

The review work consists of considering whether the work has been carried out in accordance with the regulations governing the accounts auditing activity, whether significant issues have been raised for their evaluation, whether the appropriate queries have been made and the resulting conclusions have been documented and implemented, whether the work carried out supports the conclusions reached, whether sufficient and adequate evidence has been obtained to support the report and whether the objectives of the audit engagement have been achieved.

The timely review by the engagement partner to sign the audit report, at the appropriate stages of conducting the audit engagement, allows the following issues to be resolved in a timely and appropriate manner, before issuing the audit report:

- The critical areas of judgement, especially complex or controversial issues identified whilst conducting the audit;
- Significant risks; and
- Other areas deemed important by the engagement partner.

On the other hand, the *quality control review is a preventive control*, prior to the issuance of the audit report, carried out by people external to the audit team of the engagement subject to this review, with the objectivity and technical qualifications necessary to review that engagement, including the necessary experience and authority. This review is required for audit engagements of PIEs, as well as for all others that meet the risk criteria. In exercising this control, the quality control reviewer includes the following in their scope of review:

- Discussion about the significant issues with the engagement partner to sign the audit report;
- Review of the financial statements subject to the audit engagement and of the draft audit report;
- Review of the selected documentation of the audit engagement regarding the significant judgements formulated by the audit engagement team and the conclusions reached; and
- Evaluation of the conclusions reached for the issuance of the audit report and the consideration of the adequacy of the draft report.

Furthermore, when dealing with an audit engagement of a PIE, the quality control review includes consideration of the following:

- The evaluation carried out by the audit engagement team regarding the independence of this engagement;
- Whether appropriate queries have been made on issues in which there are differences of opinion or other complex or controversial issues, and the conclusions reached in this query;
- Whether the documentation selected for review reflects the work carried out in relation to the significant judgements and whether it supports the conclusions reached.

Section a.2) outlines the main deficiencies, with regard to conducting a part of the audit engagements selected by the ICAC inspection to review the application of the methodology of audit firms, that have not been avoided by the preventive control of the quality control review, which reveals the ineffectiveness of this control on critical areas of two out of the three audit engagements reviewed by ICAC.

At an audit firm, the policies do not require the inclusion of verifying compliance with the independence requirements in the scope of the quality control reviews.

At an audit firm, there are no procedures in place to ensure the objectivity of the reviewers. In this regard, cross reviews have been detected, especially in relation to the quality control reviews of engagements corresponding to entities operating in the financial sector, with no measures in place to ensure that these reviews are carried out objectively.

In the documentation of the quality reviews, corresponding to the sample of reviews selected by ICAC, 76% do not reveal the issues discussed with the audit team, nor do they show the criteria and judgements that support the conclusions of the quality control reviews.

In 66.6% of audit engagements selected by ICAC in which there was a quality control review, this review did not identify any existing significant deficiencies.

(vi) **Monitoring** of the quality control system.

This is a post-implementation control of the rest of the policies and procedures, and the issuance of the audit reports, whose aim is to provide reasonable assurance that the quality control policies and procedures are relevant, adequate, and operate effectively.

The monitoring of the quality control system was included in the scope of some inspections. The main finding related to this element was the recommendation to guarantee the necessary authority and objectivity of the person in charge of these responsibilities.

Evolution compared to previous financial years: aspects to highlight

The number of inspections carried out each year, and the number of audit engagements included in their scope, is too limited to draw conclusions regarding the quality of auditing in Spain in each of the financial years. The number and frequency of deficiencies could also be affected by the number and frequency of inspections⁴.

Therefore, the comparison between the inspection results from each financial year may not be representative of the evolution of the quality of auditing.

Notwithstanding the foregoing, from comparing the results of the inspections completed in 2019 with those completed in 2018, regarding the firm quality control policies and procedures, a similar level of improvement requirements in the firm procedures to that from 2018 would be deduced.

⁴ For international information on the consideration of inspection results; see the surveys conducted on this matter published by the International Forum of Independent Audit Regulators (IFIAR) <https://www.ifiar.org>

This means that effective measures must be adopted to reinforce or modify the policies, procedures, processes and controls, or their implementation, so that the quality control system meets the objectives established in the regulations governing the accounts auditing activity.

To date, various quality control policies and procedures have been formalised and reinforced. However, there are certain elements susceptible to improvement that have been recurrently detected in recent years in essential aspects of the different elements of the quality control system, regarding those that, although policies and procedures have been implemented, are not effective enough to reach the internal quality control standard of auditors in order to achieve and maintain the necessary quality when carrying out audit engagements.

In this sense, a quality culture must be promoted that, taking into account that the auditing activity serves the public interest, above any consideration, allows there to be:

- **Acceptance and continuacne** processes of audit engagements that are performed before signing the corresponding service proposals, both auditing and services other than auditing.
- **Independence** processes that can identify the situations and services that may pose a threat to independence, and assess, in a timely and appropriate manner, their effect in order to implement effective safeguards that ensure it does not incur prohibitions or incompatibilities, or situations in which independence is compromised.
- **Performance evaluation processes in the conducting of audit engagements and remuneration systems** that take a measurement of this performance with the quality criteria required by the auditing regulations, in response to the public interest to which this activity serves.
- Processes related to **conducting the engagements** in order to ensure that the necessary time is dedicated to the execution, direction, review and supervision of each engagement within the audit teams, paying special attention to the quality control review of the audit works, before the issuance of the audit reports.
- Processes that manage to **implement an objective monitoring** of the system with the required authority, sufficient resources, the competence and profesional scepticism required to detect inefficiencies in the quality control system and propose the necessary improvements to promote continuous improvements in this system.

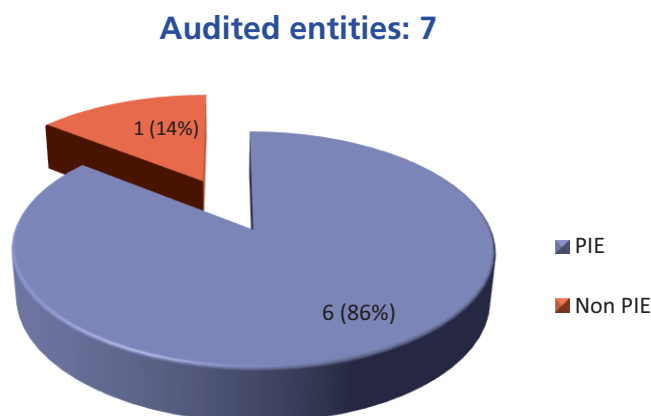
In this context, it is essential that estimating the time estimated to provide auditing services does not compromise the ability to comply with the regulations, as this would cause the audit report to lose its purpose. Likewise, the estimation of fees must mainly be based on the audit effort to be used, which will vary depending on the time, resources, staff, qualifications and experience required to perform the work properly in order to preserve its quality, in accordance with the complexity and size of the audit to be carried out. The estimation of these fees must not be influenced or affected by the possible provision of other additional services that the auditor may provide to the audited entity, which are permitted in accordance with the independence system and the prohibitions to which the auditor is subject.

With regard to comparing the results from one of the inspections completed in 2019 with the previous inspection conducted by the same audit firm, the number or relevance of the improve-

ment requirements has decreased slightly in some elements of the quality control system. However, efforts are still needed to improve the implemented system of policies and procedures so that the objectives can be met for each element of the quality control system established in the internal quality control standard for accounts auditors and audit firms.

a.2) Methodology for the performance of audits engagements

In the scope of the inspections, 7 audit engagements corresponding to 7 entities were included.



The improvement requirements listed in the inspection reports issued in 2019 do not have to be specified in a sanctioning case, nor do they necessarily prejudice the commission of infringements to the auditing regulations⁵, notwithstanding the fact that, in the relevant cases, the corresponding disciplinary actions will be initiated.

The improvement requirements also do not necessarily imply the disclosure of material inaccuracies in the audited financial information, to the extent that the purpose of the inspection is solely to evaluate the performance of accounts auditors and audit firms through the audit teams appointed to conduct the audit engagements, taking into consideration the provisions of the International Standards on Auditing adapted for their application in Spain by the ICAC Resolution dated 15 October 2013, of the Accounting and Auditing Institute, through which the new Technical Auditing Standards are published as a result of adapting the International Standards on Auditing for their application in Spain (ISA-ES).

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

⁵ In particular, they do not prejudice the existence of a possible serious infringement due to a «breach of the auditing standards that could have a significant effect on the results of its work and, consequently, its report», classified in article 73.b) of the LAC.

SUB-SECTOR	No. PIE	No. Non-PIE
Banks and savings banks	1	-
Insurance	2	-
Pharmaceuticals products and biotechnology	1	1
Commerce	1	-
Other consumer goods	1	-
TOTAL	6	1

The areas included in the scope of the inspection were as follows:

	WORKING AREAS	No. PIE	No. Non-PIE
ACCOUNTING ESTIMATES	Loans and advances to customers	1	-
	Financial instruments	1	-
	Goodwill	2	-
	Expenses from the acquisition of the insurance portfolio	1	-
	Mathematical provision	1	-
	Long-term investments in group and associated companies	2	-
	Tangible fixed assets	1	-
	Stock	2	-
	Consolidation process	1	-
	Cash and other liquid assets	2	-
	Net turnover (NT) and trade receivables	2	1
	Supplies and trade payables	2	-

The distribution of improvement requirements by item on the financial statements is as follows:

	Item on the annual accounts	No. requirements	% of the total requirements
ACCOUNTING ESTIMATES	Loans and advances to customers	10	16,95
	Derivative financial instruments	7	11,86
	Mathematical provision	5	8,47
	Goodwill	1	1,69
	Investments in group and associated companies	1	1,69
TOTAL ACCOUNTING ESTIMATES		24	40,68
	Net turnover and trade receivables	9	15,25
	Stock	9	15,25
	Supplies	5	8,47
	Trade payables	9	15,25
	Cash and other equivalent liquid assets	2	3,39
	Fixed assets	1	1,69

Numerically and quantitatively, the improvement requirements related to the accounting estimates of PIEs stand out.

Detailed below is a breakdown of the matters over which improvement requirements have been made, based on the accounting item on the financial statements:

- With regard to the item on loans and credits to customers, improvement requirements related to the following issues have been formulated:
 - The lack of audit evidence regarding the proper identification of refinanced loans, despite having identified and assessed a fraud risk in this regard.
 - With regard to individually estimated credit risk coverage, improvement requirements have been made, on the one hand⁶, to the substantive procedures on the integrity and accuracy of the data, on the adequacy of the methods and the reasonableness of the assumptions used in the appraisals, as well as on the haircuts applicable to the appraisals, and, on the

⁶ In the case of the estimated amount recoverable through the current cash flow value that would be generated by the sale of the real estate guarantee associated with the exposure to risk (gone approach).

other hand⁷, to the substantive procedures applied to verify the reasonableness of the assumed cash flows available to the debt service.

- In terms of the collective estimate of the credit risk coverage, there are improvement requirements referring to control testing over the integrity and accuracy of the data included in the historic databases, and to the carrying out of substantive procedures and control testing over the credit risk assessment.
- With regard to the tests carried out over derivative financial instruments, the following issues stand out:
- Failure to carry out, at year-end, substantive reconciliation procedures between derivative inventories and the annual accounts.
 - Lack of control testing.
 - Lack of alternative substantive procedures in the absence of a response from the counterparties.
 - Lack of investigation and evaluation of the effect, on the audit work, of the detection of some operations for which the supporting documentation was not found, which affects the claims of integrity, existence, and accuracy.
- In terms of the mathematical provision, the improvement requirements are focused on the following issues:
- The carrying out, at year-end, of substantive reconciliation procedures between the inventories of premiums and liability flows, and the annual accounts.
 - The carrying out, at year-end, of control testing of the adjustment from the matching of flows.
 - The carrying out, at year-end, of substantive procedures to verify the correct calculation of the provision.
- With regard to goodwill, the main improvement requirement identified is related to the sensitivity analysis of the goodwill impairment test assigned to a cash-generating unit (CGU), carried out by an audited entity, and the information contained in the corresponding audited annual accounts report.
- With regard to the net turnover, supplies, trade receivables and payables, stock, and cash and other equivalent liquid assets, the improvement requirements refer to the following aspects:
- The rebuttal of the presumed fraud risk with regard to sales to related companies whose recorded amount at year-end is very significant.
 - The carrying out of tests likely to respond to the causes for which a fraud risk was identified in relation to supplier haircuts.
 - The justification of the conclusion on the evaluation of the management expert's report on transfer prices.
 - Control testing at year-end.
 - The carrying out of analytical procedures that are not substantive in nature.

⁷ In the case of the estimated amount recoverable through the cash flow discount method available to the debt service of the borrowers (going approach).

- The lack of contrast in the files provided by the entity with the records from which they were obtained.

In summary, the distribution of improvement requirements by audit aspects is as follows:

Audit aspects	No. of requirements	% over the total requirements
Substantive procedures	42	71,19
Test of controls	11	18,64
Identification and assessment of risks of material misstatement	3	5,08
Response to the risks of material misstatement identified	2	3,39
Audit report	1	1,69
TOTAL	59	100%

Evolution compared to the previous financial year - aspects to highlight

The number of inspections carried out each year, and the number of audit engagements included in their scope, is too limited to draw conclusions regarding the quality of auditing in Spain in each of the financial years. Therefore, the comparability of the inspection results between financial years may not be representative of the evolution of the quality of auditing.

Notwithstanding the foregoing, from the comparison between the results of the inspections in 2019 with those completed in 2018, the improvement requirements outlined in the 2019 inspections refer to aspects similar to those identified in inspections from previous financial years.

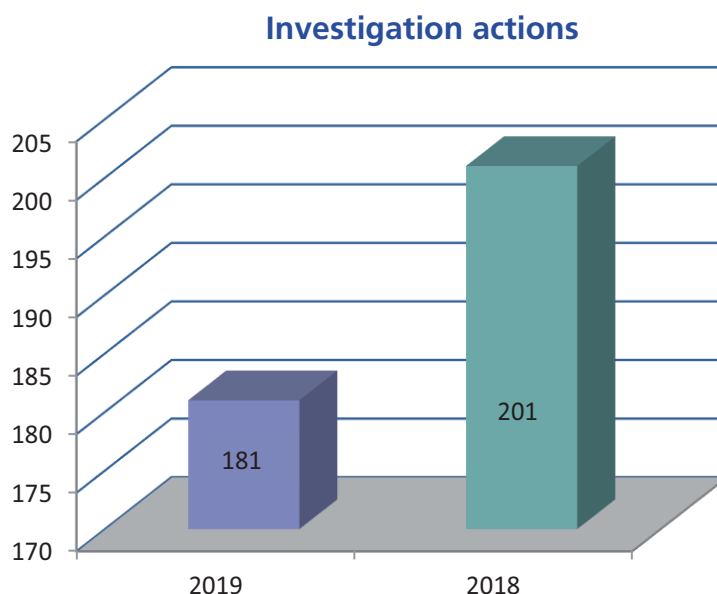
The result of the inspections carried out in recent years continues to highlight the need to improve the procedures for the identification and assessment of risks of material misstatement, and also improve the nature and extent of control and substantive testing in order to suitably respond to the risks of material misstatement and obtain conclusions that allow an adequate and sufficient opinion to be formed for the issuance of audit reports.

In summary and generally, but especially in relation to the accounting estimates and recognition of income, it is necessary to delve into the essential necessary professional scepticism in order to perform the audit engagements with the quality required in the regulations governing the accounts auditing activity, for the purposes of obtaining reasonable assurance that the annual accounts are free from material misstatement.

b) Investigation actions

181 investigation actions were carried out during the 2019 financial year, which is 20 actions less than in 2018 (9.95% less). Of this total of 181 actions, 48 actions were carried out directly by

ICAC and 133 with the assistance of the professional bodies account auditors, under the direction and supervision of ICAC. The decrease in the number of actions in 2019, compared to those carried out in 2018, is due to the decrease in the number of requests by other administrations and of complaints received in 2019.



The origin of the actions was as follows:

Origin of the action	No. actions	Percentage over the total actions
Complaints	48	26,52%
Inspection actions carried out with the assistance of professional bodies auditors	133	73,48%
TOTAL	181	100%

b.1) Complaints.

The 48 complaints received are mainly related to the conducting of audit works on entities other than PIEs. Once analysed, 36 complaints were filed in 2019 (75%) due to there being no existence of possible indications of a breach of the regulations governing the auditing activity that could lead to a non-prescribed infringement.

Of the remaining 12 complaints received, after analysis, there were indications of an infringement in 1, and investigative actions were initiated against 11 audit engagements due to the possible existence of an infringement. Following the corresponding investigation, the actions regarding 1 audit engagement were archived and indications of an infringement were observed in the other 10 audit engagements (which represents 22.92% of complaints received). The main indications of breaches revealed are as follows:

Type of breach indication	No. Of possible breaches detected
Possible breach of Auditing Standards that could have a significant effect on the result of the work and, consequently, on the audit report	8
Possible lack of independence	2
Possible signing of audit reports without being registered as a practising auditor	1
TOTAL	11

b.2) Inspection actions carried out with the assistance of professional bodies auditors.

During 2019, all actions with the assistance of professional bodies auditors planned in ICAC's action plan for 2018 were completed, in accordance with the agreement signed with these corporations in September 2018, aimed at investigating the following aspects:

- Compliance with the mandatory minimum training of practising auditors for the period ranging between 01/10/2016 and 30/09/2017.
- Formal requirements of the transparency reports corresponding to the financial years of accounts auditors and audit firms of PIEs that ended in 2017.
- Audit works in which there are indications of insufficient resources to carry them out with the quality required by the regulations governing the accounts auditing activity.

CONCEPT	Total planned actions	Total actions completed in 2018	Total actions completed in 2019
Training 01/10/2016 - 30/09/2017	114	20	94
Formal requirements of the transparency reports corresponding to the financial years that ended in 2017	82	67	15
Accounts audit engagements	24	-	24
TOTAL	220	87	133

With regard to the 94 actions to verify the mandatory minimum training for the period ranging between 01/10/2016 and 30/09/2017 completed in 2019 (in addition to the 20 completed in 2018), 31 actions (33%) were archived due to not detecting any indications of a

possible breach, and indications of an infringement were detected in 63 actions (67%), due to the failure to accredit the completion of the mandatory minimum training through approved courses.

In terms of the 15 actions to verify the formal requirements of transparency reports completed in 2019 (in addition to the 67 completed in 2018), deficiencies were detected in all of them, mainly due to the failure to publish the transparency reports in the legally established time.

In the 24 audit engagements analysed on entities other than those of public interest, including the aforementioned investigative actions, significant deficiencies were observed. The actions indicated in the above table were initiated based on risk indicators of insufficient resources to carry them out with the quality required by the regulations governing the accounts auditing activity. The result of these actions confirms the need to have adequate and sufficient resources, taking into account the nature, complexity, and size of the entities to be audited, as well as the need to acquire up to date knowledge of the auditing standards.

The following table summarises the investigation actions carried out and their results (the actions completed in 2019 are in brackets):

Origin of the action	No. actions	Without incidents	With deficiencies	Percentage of deficiencies over actions
Complaints	48	37	11	22,91%
Training 01/10/2016-30/09/2017	114	42	72	63,15%
Actions completed in 2018	20	11	9	45%
Actions completed in 2019	94	31	63	67%
Formal requirements of the transparency reports corresponding to the financial years that ended in 2017	82	67	15	18,29%
Actions completed in 2018	67	67	0	0%
Actions completed in 2019	15	0	15	100%
Audit engagements with indicators of insufficient resources	24	0	24	100%
TOTAL	268	146	122	
Percentage over the total actions		54,47%	45,52%	

ICAC's action plan for 2020 foresees the continuity of inspection actions carried out with the assistance of professional bodies auditors. Therefore, two agreements have been signed in 2019 with the General Council of Economists of Spain and with the Spanish Institute of Chartered Accountants to perform the following actions to verify audit works in which there are indicators of insufficient resources to carry them out with the quality required by the regulations governing the accounts auditing activity; to verify compliance with the mandatory minimum training of practising auditors for the period ranging between 01/10/2017 and 30/09/2018; and to verify the formal requirements of the transparency reports of accounts auditors and audit firms of PIEs. These agreements include the carrying out of 100 actions on training, 60 on transparency reports, and 20 on accounts audit engagements. These actions are expected to be completed in the first half of 2020.

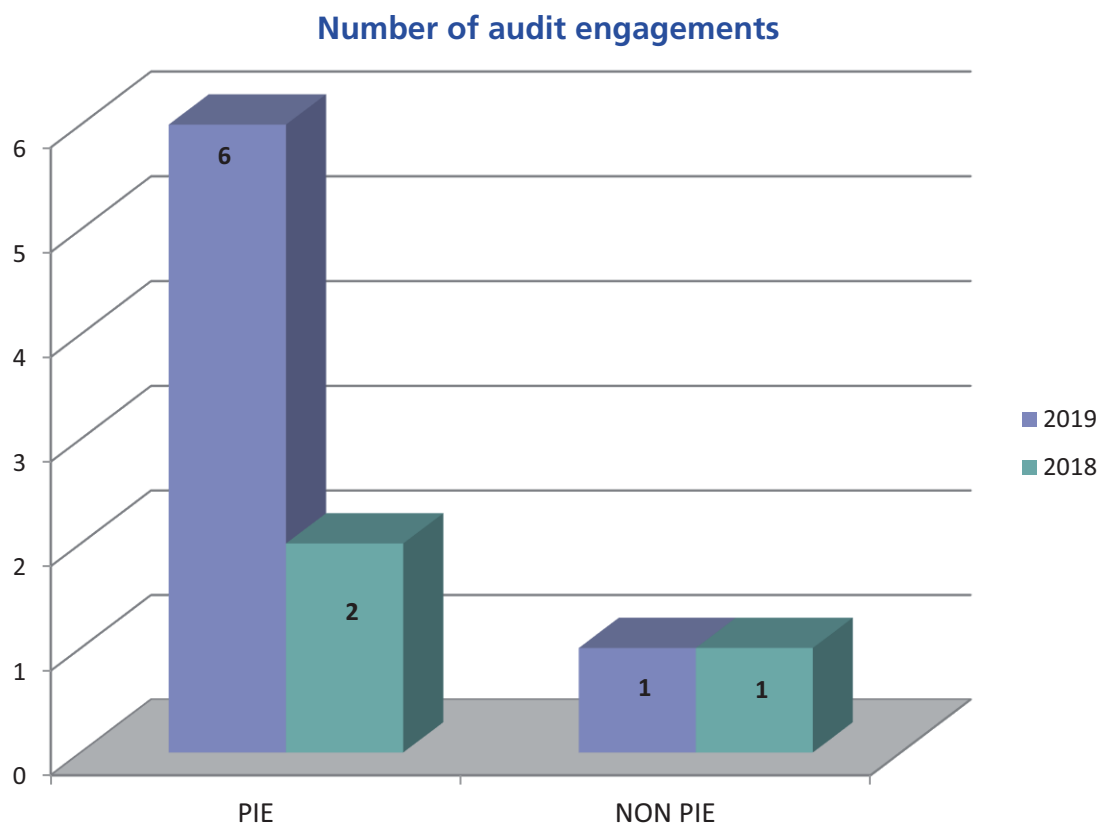
c) Evolution of the control actions compared to the previous financial year.

The comparison between inspection actions is as follows:

DIRECT INSPECTION ACTIONS	2019	2018
Inspections of large-scale auditors that audit PIEs	1	1
Inspections of medium-scale auditors that audit PIEs	1	-
TOTAL	2	1

With regard to inspections, the comparison between the engagements included in the scope of the inspection is as follows:

Number of audit engagements	2019	2018
PIE	6	2
NON-PIE	1	1
TOTAL	7	3



In the 2019 financial year, the investigations did not include the carrying out of investigations on audit engagements of PIEs.

Taking into account the limited resources assigned to ICAC, as well as the greater risk to the public interest, in 2019 the efforts to supervise the accounts auditing activity have focused on the carrying out of inspections on auditors and audit firms that audit PIEs, incorporating medium-scale audit firms like in 2018.

During 2019, resources were also allocated to the carrying out of investigations with the assistance of professional bodies auditors.

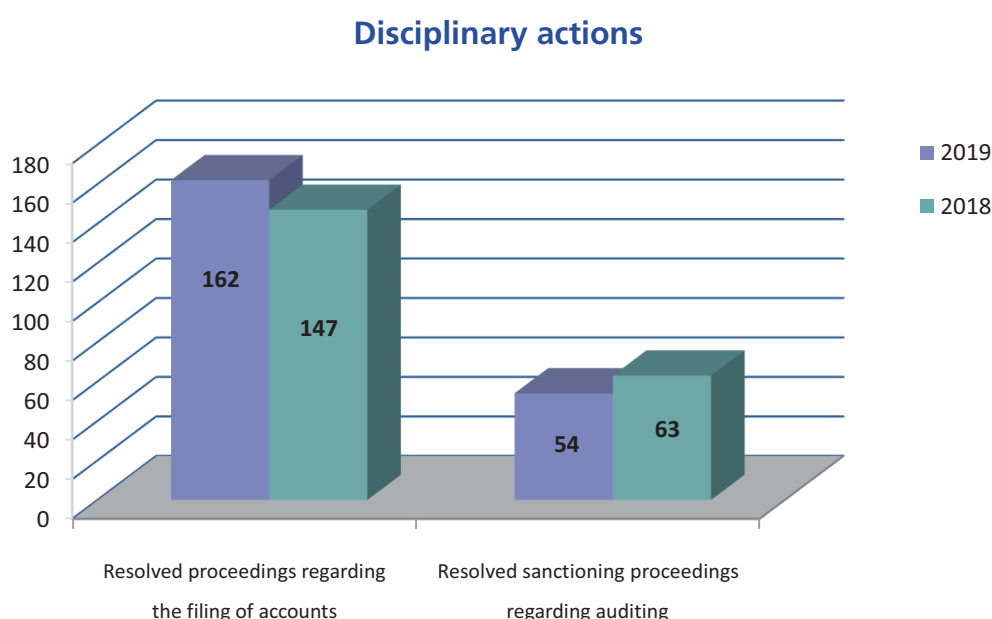
DISCIPLINARY ACTIVITIES

The specific disciplinary actions developed in 2019 by the General Directorate of Technical Auditing Standards were as follows:

- a) The processing of sanctioning administrative proceedings due to breaches in accounts auditing. In order to process these proceedings, this Directorate has counted on 10 members of staff to assist the Presidency in preparing the acts for which it has the power established in these proceedings.
- b) The processing of sanctioning administrative proceedings due to breaches of the obligation to present annual accounts for filing into the Mercantile Registry has been carried out with the dedication of 2 members of staff, assisting the Presidency to prepare the acts for which it has the power established in these proceedings.

The number of sanctioning proceedings regarding accounts auditing and filing accounts has increased in 2019, rising to a total of 230 proceedings compared to the 210 proceedings resolved in the 2018 financial year. The breakdown of these proceedings is as follows:

DISCIPLINARY ACTIONS	2019	2018
Resolved proceedings regarding the filing of accounts	162	147
Resolved sanctioning proceedings regarding auditing	54	63
TOTAL	230	210

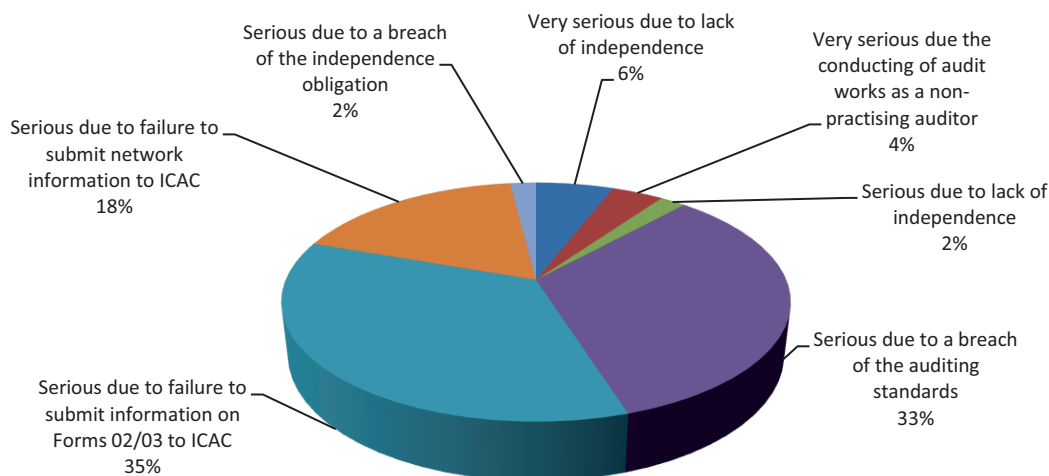


It should be noted that, in 3 of the 54 resolved sanctioning proceedings regarding auditing, a resolution was issued without imposing a sanction. One of these proceedings, which had started in 2007, was suspended due to substantive issues being settled in a criminal court. Once the suspension was lifted, the dismissal was issued as a consequence of the decriminalisation of the infringement imputed after the commission of the events and by virtue of the principle of non-retroactivity of the penalty provisions, unless they are favourable. In the other 2 proceedings, it was agreed to archive the actions because the audit firm, to which the possible breach of the obligation to present form 03 corresponding to both consecutive financial years had been attributed, was dissolved and liquidated, with the consequent extinction of liability.

In the other 51 proceedings regarding accounts auditing that were processed and resolved, breaches of the auditing regulations constituting very serious and serious infringements were declared, as detailed in the following table.

Infringements included in the resolved sanctioning proceedings regarding accounts auditing	No. proceedings in 2019	No. proceedings in 2018
Very serious due to lack of independence	3	8
Very serious due to refusal or resistance in the exercising of their powers	-	1
Very serious due the conducting of audit works as a non-practising auditor	2	-
Serious due to lack of independence	1	-
Serious due to a breach of the auditing standards	17	7
Serious due to a breach of the duty of rotation	-	-
Serious due to failure to submit information on Forms 02/03 to ICAC	18	23
Serious due to failure to submit network information to ICAC	9	16
Serious due to a breach of the obligation to report certain circumstances to the oversight bodies of the audited entity	-	-
Serious due to a breach of the independence obligation in relation to the safeguard measures applied and when these are insufficient or have not been established	1	-
Serious due to a breach of the transparency report	-	-
Serious due to improper identification	-	1
Minor due to failure to send information to ICAC	-	7
TOTAL	51	63

Infringements of sanctioning proceedings in 2019



As shown by the data, a total of five (5) very serious infringements, forty-six (46) serious infringements

and no minor infringements were declared to have been committed during the 2019 financial year.

Of the resolved proceedings for [very serious infringements](#), two correspond to an individual auditor due to carrying out audit works without being registered in the ROAC, and the other three correspond to a breach of the duty of independence due to the concentration of fees at the audited entity.

Included among the [serious infringements](#) are those related to the failure to submit the required information to ICAC, with twenty-seven infringements (27), eighteen (18) of which are due to the failure to regularly submit the information forms (forms 02 and 03) to ICAC, and nine (9) are due to the failure to declare, in these forms, the network to which the auditor or audit firm belongs, as this is substantial information. There was also one (1) infringement due to a breach of the duty of independence as a member of the network of auditors was linked to the audited company; one (1) infringement due to the failure to evaluate the threats of an entity from the network of the audit firm providing services to the audited company, and seventeen (17) infringements due to a breach of the auditing standards that could significantly affect the results of the audit work and the report issued.

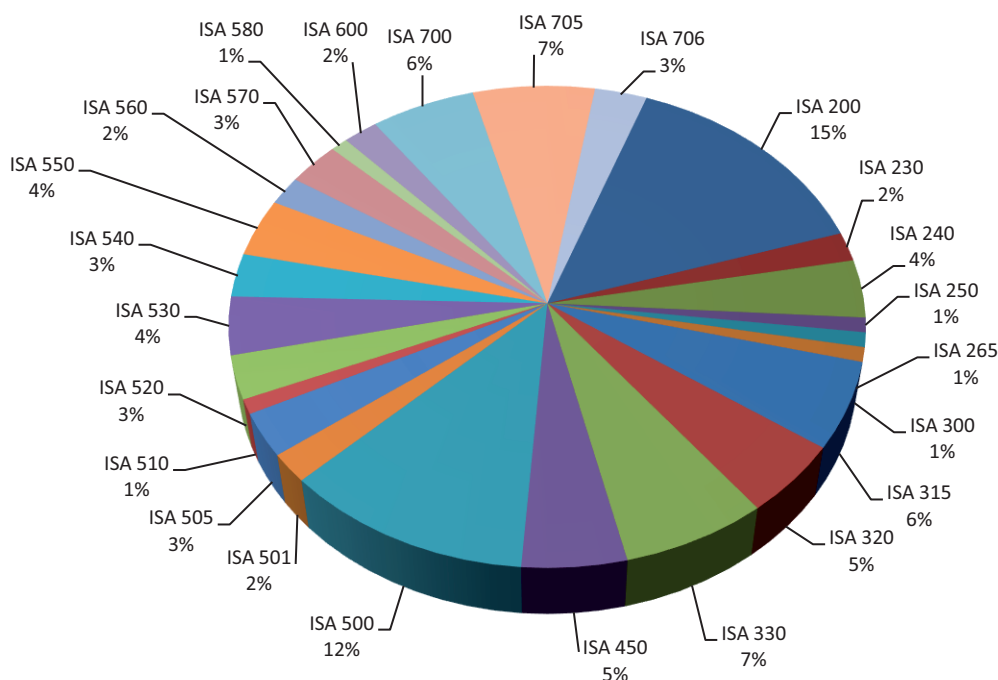
Outlined below is the following information regarding the sanctioning proceedings resolved and the infringements declared:

- Sanctioning proceedings processed as a consequence of failing to include the information relating to the network to which the auditors or audit firms belong in the regular information forms submitted to ICAC (02 forms in the case of individual auditors and 03 in the case of audit firms) (serious infringements).
- The 9 proceedings of this kind that were resolved during the 2019 financial year correspond to infringements committed by 6 audit firms. 3 companies have accumulated two proceedings due to committing breaches in two consecutive periods (November 2017 and October 2018).

- The sanctioning proceedings processed as a consequence of failing to regularly submit the information forms to ICAC (02 forms in the case of individual auditors and 03 in the case of audit firms) amount to 18 (serious infringements).
 - Of the 18 proceedings of this type that were resolved during the 2019 financial year, 8 correspond to infringements committed by 4 individual auditors that have accumulated due to failing to submit form 02 for two consecutive periods (October 2018 and November 2017).
 - The remaining 10 proceedings correspond to infringements committed by 5 audit firms that have accumulated due to failing to submit model 03 for two consecutive periods (October 2018 and November 2017).
- 1 proceeding in which 1 infringement has been declared as committed relating to the duty of independence of an individual auditor as a consequence of having incurred in a situation of incompatibility, set forth in article 13.a) of the Consolidated Text of the Spanish Accounts Auditing Law (TRLAC in Spanish), due to a member of its network holding an administrative position at the audited entity and this cause of incompatibility affecting the audit works of the individual annual accounts.
- 1 proceeding with an audit firm and the engagement partner due to the failure to evaluate the threats of a company from the network of the audit firm providing services to the audited company.
- Proceedings processed as a consequence of a breach of the auditing standards that could have a significant effect on the results of the audit work and, consequently, on the audit report issued (serious infringement).
 - The number of proceedings processed amounted to 17, which were mostly about accounts audit works corresponding to the financial year. The breaches essentially affected the following International Standards on Auditing:

ISAs breached	No. of proceedings in 2019	No. of proceedings in 2018
ISA 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with the International Standards on Auditing"	15	7
ISA 230 "Audit documentation"	2	4
ISA 240 "The auditor's responsibilities relating to fraud in an audit of financial statements"	4	-
ISA 250 "Consideration of laws and regulations in an audit of financial statements"	1	-
ISA 265 "Communicating deficiencies in internal control to those charged with governance and management"	1	-
ISA 300 "Planning an audit of financial statements"	1	-
ISA 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment"	6	-
ISA 320 "Materiality in planning and performing an audit"	5	-
ISA 330 "The auditor's responses to assessed risks"	7	4
ISA 450 "Evaluation of misstatements identified during the audit"	5	1
ISA 500 "Audit evidence"	12	4
ISA 501 "Audit evidence - specific considerations for selected items"	2	-
ISA 505 "External confirmations"	3	-
ISA 510 "Initial audit engagements - opening balances"	1	-
ISA 520 "Analytical procedures"	3	2
ISA 530 "Audit sampling"	4	4
ISA 540 "Auditing accounting estimates, including those of fair value, and related disclosures"	3	4
ISA 550 "Related parties"	4	-
ISA 560 "Subsequent events"	2	3
ISA 570 "Going concern"	3	4
ISA 580 "Written representations"	1	-
ISA 600 "Special considerations - audits of group financial statements (including the work of component auditors)"	2	-
ISA 700 "Forming an opinion and reporting on financial statements"	6	3
ISA 701 "Communicating key audit matters in the independent auditor's report"	0	-
ISA 705 "Modifications to the opinion in the independent auditor's report"	7	4
ISA 706 "Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report"	3	4

ISA-ES breached in 2019

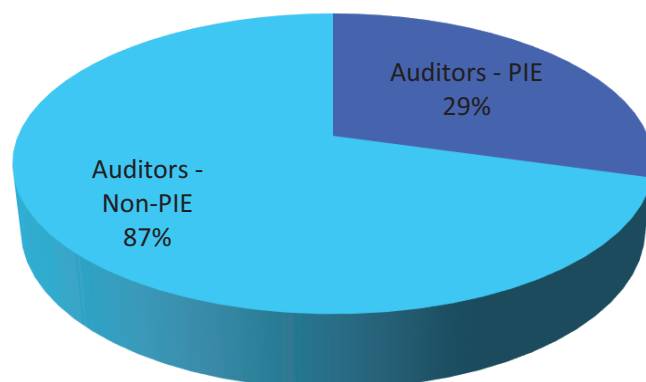


2018 was the first year of proceedings corresponding to audit works of accounts to which the ISA-ES were fully applicable, and therefore the first year in which there are data on the standards breached. As can be seen, in 2019 the type of ISA-ES in which deficiencies have been detected has significantly increased.

The following graph shows the details of proceedings resolved due to a breach of the technical auditing standards that could have a significant effect on the audit work and on the report issued, or due to a breach of the duty of independence, in relation to the number of auditors of public interest entities (PIE) for which sanctioning proceedings have been processed, according to the data contained in the following table:

	Año 2019	Año 2018
PIE audits	5	2
Non-PIE audits	12	13

Proceedings related to accounts audit works corresponding to PIEs and Non-PIEs in 2019



The amounts of fines imposed in 2019, by type of auditor sanctioned, amounts to the following:

Sanctioned	Amount
Audit firms and partners	€ 5.602.631,28
Individual auditors	€ 81.605,60
Total fines	€ 5.684.236,88

In addition to the foregoing, it should be noted that, during the 2019 financial year, the following appeal reports have been issued, filed in accordance with that established in article 47 of the Accounts Auditing Law (formerly article 27.5 of the TRLAC), relating to the sanctioning proceedings processed in the Directorate of Technical Auditing Standards, as well as the following appeal for reversal reports filed in accordance with article 112.1 of the Law on the Common Administrative Procedure of Public Administrations (LPACAP in Spanish), the extraordinary appeal for review filed in accordance with article 125 of the aforementioned LPACAP, and the official amendment in accordance with that established in article 109 of this Law:

Appeal reports	2019	2018
Appeal reports derived from audit proceedings	19	18
Reports on extraordinary review appeals	1	-
Appeal reports derived from account filing proceedings	7	17
Appeal for reversal reports derived from account filing proceedings	8	-
Appeals filed against the voluntary notification of the debt derived from the ICAC Resolution	-	-
Official amendments of the ICAC Resolution	-	-

A total of 23 sanctioning proceedings have also been sent to different courts, with the corresponding information and support. During the 2019 financial year, 9 sentences were passed by the competent judicial bodies, in all cases dismissing the appeals filed by the auditors and confirming the criteria of ICAC, having subsequently filed an appeal for cassation on three of these sentences that have been rejected in all cases.

INTERNATIONAL ACTIVITY

The General Directorates of Technical Control and of Technical Auditing Standards regularly participate in international meetings, attending various meetings held during 2019 in the scope of the following institutions:

- Commissions of the European Union.
Audit Regulatory Committee (AuRC): formed by the authorities with regulatory powers in auditing the accounts of different Member States of the European Union.
- Plenaries of the Committee of European Audit Oversight Bodies (CEAOB). CEAOB is formed by senior representatives of the competent authorities of Member States of the European Union. Its mission is to organise cooperation between these competent authorities to promote the coherent application of the European regulations in accounts auditing, facilitate the exchange of information and advice to the Commission on matters including the technical evaluation of the supervisory systems of third-party countries and the technical examination of the International Standards on Auditing with a view to their adoption at a European level.
- Standards Subgroup of CEAOB, a European-wide working group that analyses the draft standards issued by the international issuer, the International Auditing and Assurance Standard Board (IAASB), in order to draft comment letters to send to this issuer. It also carries out analysis works on the differences existing between the standards applicable in each Member State of the European Union and the standards issued by the IAASB, in order to advise the European Commission in the process that, if any, could be initiated to adopt the standards at a European level.
- Inspections Subgroup of CEAOB, a European-wide working group that mainly shares experiences derived from the inspections, audit deficiencies detected in the inspections, dialogue with audit firms, and inspection methodology with the issuers of international auditing and ethical standards (IAASB and the International Ethics Standards Board for Accountants - IESBA).
- Colleges of Regulators: established for every three of the 4 main European audit firms. Each one of these working groups is responsible for the preparation and continuous dialogue with each of these firms.
- International Forum of Independent Audit Regulators (IFIAR): of international scope, formed by 52 authorities from the five continents, in order to exchange experiences and knowledge in inspections and technical auditing regulations. This Forum meets both in Plenaries and in groups.
- Competent Authority of the United States of America (Public Company Accounting Oversight Board - PCAOB): Joint inspection activities, in accordance with that established in art. 67 of the LAC.

In 2019, the participation of this Institute in the above institutions, through the General Directorates of Technical Control and of Technical Auditing Standards, has been in the following activities:

- **Plenary meetings of CEAOB** (Committee of European Audit Oversight Bodies): 3 meetings have been held on, among other things, the discussion of the work programmes of the working groups, dialogue with third parties interested in the audit activity and its supervision, promotion of working groups for the adoption of guidances on certain aspects of the EU regulations on Auditing.
- Participation in the **plenary meeting of IFIAR** (International Forum of Independent Audit Regulators) in order to, in addition to different corporate aspects, hold a discussion with the six largest global networks of audit firms and with the international issuers of auditing standards, to promote the necessary changes for the purposes of improving the quality of the audit. It has also participated in two workshops on inspections and one on investigations, with the aim of sharing supervisory experience.
- **Standards Subgroup of CEAOB**: attendance in 8 conference calls and one face-to-face meeting. This group has followed up on what was agreed in previous conferences, discussed the needs to modify international auditing and ethical standards, in light of the deficiencies identified in the inspections carried out at a European level, proposed the relevant and corresponding communications to the IAASB and IESBA, as well as respond to the draft international standards issued by these international issuers of standards and their work plans (IAASB – IESBA strategy 2020-2023 and the work plan for 2020).

It has also monitored the actions carried out by the IAASB and IESBA on the issues included in the letters from CEAOB sent to these international issuers of standards. Also during the year, comments have been prepared in relation to the drafts for ISQM 1 and 2 (Standards on Quality Management, aimed at replacing the current Quality Control Standards) and for ISA 220 "Quality control for an audit of financial statements" presented by the IAASB.

With regard to ISA 315 «Identifying and assessing the risks of material misstatement through understanding the entity and its environment», the works have been completed with the monitoring of the observations made, and works have started on the review project of ISA 600 «Special considerations - audits of group financial statements».

Moreover, within the scope of this group, the comments issued in the previous year have also been monitored, along with the IAASB projects referring to the IESBA projects on fees, professional scepticism, non-audit services, technology and new forms of reporting, less complex entities and audit evidence.

Due to being a European group, in addition to the aforementioned working areas, issues relating to the European regulations have also been addressed, such as the preparation of the ESEF (European Single Electronic Format) guidelines. This Working Group also discusses issues raised by the participants regarding the application of certain precepts of the European regulations on Auditing (Directive and Regulation) on issues that are related to the application of the Auditing Standards. It has also discussed the differences existing between the International Standards issued by the IAASB and the standards adopted in the different Member States, as a means of advising the European Commission on their possible adoption at a community level.

In this field, it is worth **noting the CEAOB Task Force, led by Spain through ICAC**, through which the guidelines on the maximum duration of the audit engagement set forth in articles 17 and 41 of (EU) Regulation no. 537/2014, dated 16 April 2014, of the European Parliament and the Council, have been issued. 7 conference calls and one video conference were held in order to carry out this work. These guidelines were approved at the plenary meeting of the Committee of European Auditing Oversight Bodies (CEAOB) in December 2019.

- **Standards Coordination Working Group (SCWG) of the IFIAR:** attendance in 6 conference calls and one face-to-face meeting, which planned the actions and schedules of the working group regarding the comment letters on standards issued by the IAASB and responses to requests from the Chairman and Vice-Chairman of the IFIAR, discussed the opportunity to hold specific conferences with the IAASB and/or IESBA, and informed the working group of the meetings that have been held with other bodies (International Organisation of Securities Commissions (IOSCO), Public Interest Oversight Board (PIOB), etc.). The topics of the works carried out in this group largely coincide with those of the Working Group of Auditing Standards of CEAOB, but from a global regulatory perspective.
- **Inspections Subgroup of CEAOB:** attendance at 3 meetings for the consistent development of the inspection methodology of accounts auditors and audit firms, exchange of experiences in inspection practices, as well as analysis and dialogue with the six largest European networks of audit firms on the main audit deficiencies and the actions of these networks to promote measures to reduce these deficiencies.
- **Enforcement Subgroup of CEAOB:** attendance at 1 face-to-face meeting and 3 conference calls to prepare the report on the existing investigative and sanctioning practices, the statistics of the sanctions imposed in accordance with the new European regulations on Auditing, and the model for reporting the sanctions of temporary and final de-registration to CEAOB, in accordance with that established in article 30.f) of EC Directive 2006/43, in its wording given by EU Directive 2014/56, of the European Parliament and the Council, dated 16 April 2014, as well as for exchanging practical investigation experience.
- **Colleges of Regulators:** attendance at 3 face-to-face meetings and 14 conference calls to discuss aspects of improvement in audit firms.
- In 2019, the ICAC has also participated in the meeting organised by the **European Systemic Risk Board and CEAOB** with the auditors and audit firms of financial institutions of international systemic importance and authorised within the European Union, in accordance with that established in art. 12.2 of (EU) Regulation 537/2014, of the European Parliament and the Council, dated 16 April 2014, on specific requirements for the statutory audit of PIEs.
- **Conferences organised by the PCAOB** (Public Company Accounting Oversight Board): attendance at an international meeting to discuss the new supervisory and market developments.

ACTIVITIES CENTRALISED IN THE GENERAL SECRETARIAT

Official Registry of Accounts Auditors

Access into the ROAC is made by complying with the requirements and passing the tests defined in Law 22/2015, of 20 July, on Auditing, and in the developing regulation of the consolidated text of the Accounts Auditing Law, approved by Royal Decree 1517/2011, of 31 October. Registration into this Registry is the only step that allows the issuance of accounts audit reports.

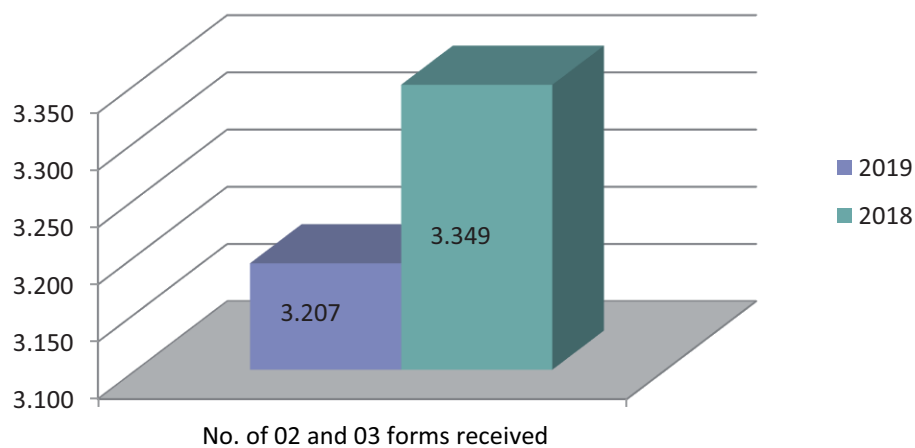
With regard to the ROAC, the following actions were developed:

- Management and maintenance of the Official Registry of Accounts Auditors: registrations into and de-registrations from the ROAC of accounts auditors and audit firms, issuance of certificates.
- Control of information required from accounts auditors and audit firms by article 79 of the developing regulation of the TRLAC, through forms 02 and 03.
- Tasks to verify payment of the fee referred to in article 87 of the LAC, claiming, where appropriate, the payment owed and the fine that may correspond due to a breach of the aforementioned article.

ROAC	2019	2018
No. of 02 and 03 forms received	3.207	3.349
Modifications of auditors and firms (*)	989	661
Registration of auditors	51	343
De-registration of auditors	62	33
Registration of audit firms	32	42
De-registration of audit firms	29	36
Certificates issued	597	1.065
FEE (art. 87 LAC): CROSSING BETWEEN FORMS 02/03		
Settlement proposals	365	437
Amount	€92.100,25	€110.670,74
Settlement proposals filed	48	48
Amount	€9.789,12	€13.107,45
Provisional settlements	317	325
Amount	€90.790,62	€89.862,93
Revenue from proposals or settlements	227	232
Deposited amount	€61.341,02	€59.694,91
Sanctions due to failure to pay the fee	163	--
Amount	€17.582,21	--

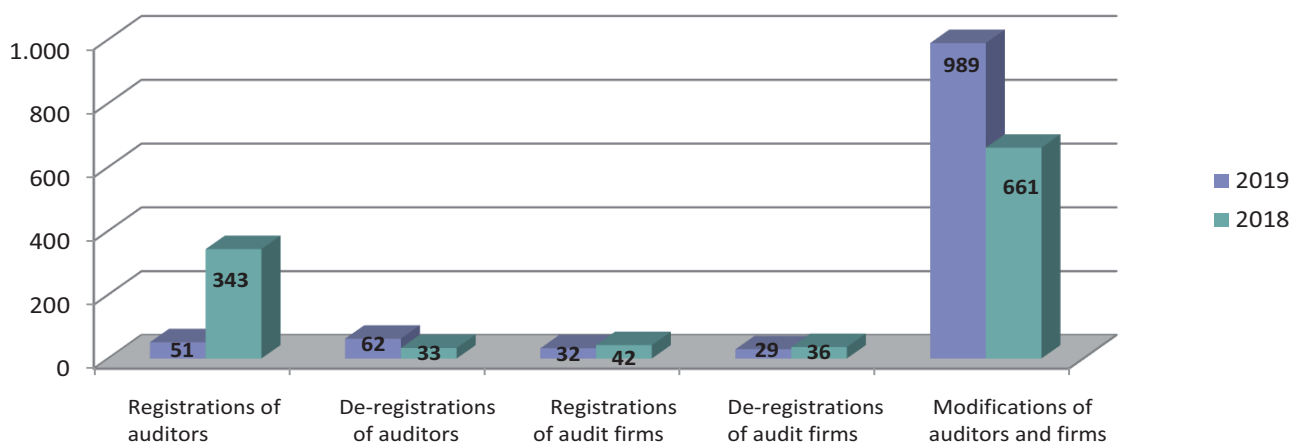
(*) The number of requests to change status and amend data presented by auditors (forms R21, R22, R31, R32 and R33) and audit firms (forms R51 and R52) have been taken into account.

Information submitted by auditors and firms

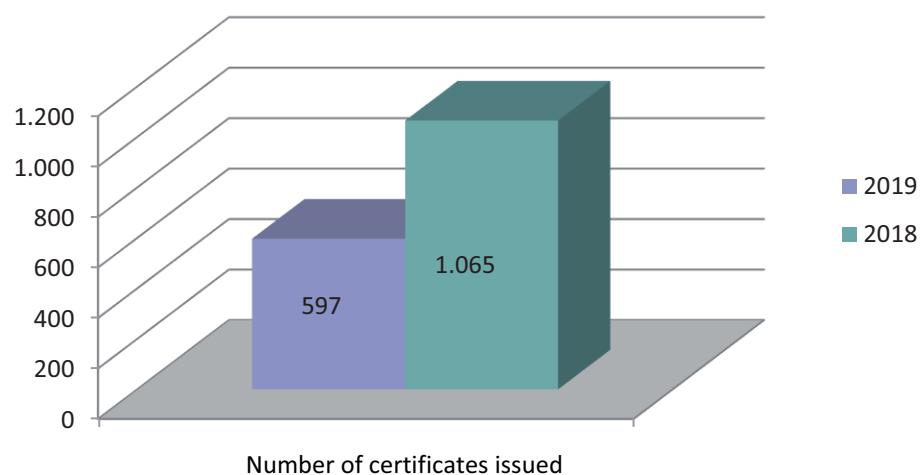


Forms 02 and 03 refer to those approved by the ICAC Resolution dated 29 June 2012 (modified by the Resolutions dated 25 July 2014, October 2016, and 29 September 2017) on the submission of mandatory information by accounts auditors and audit firms.

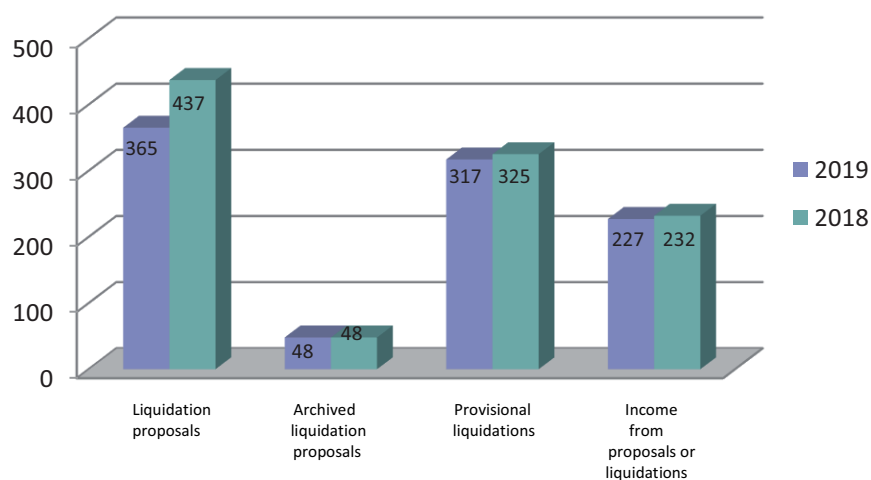
Official Registry of Accounts Auditors



Certificates issued



Management of the fee

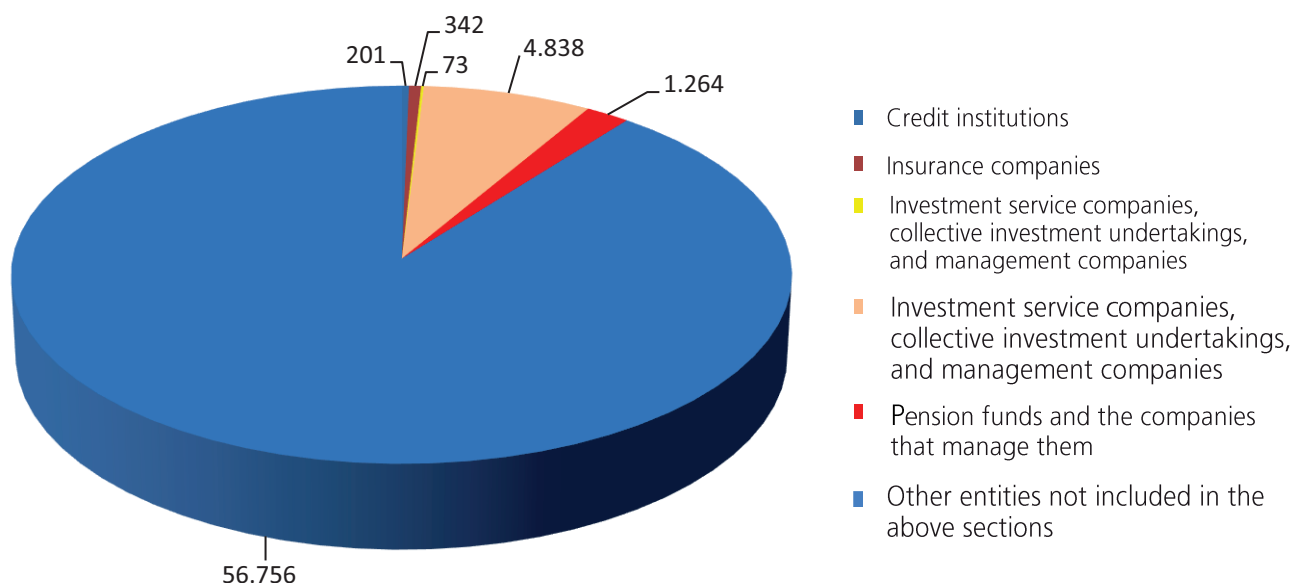


The practising auditors and audit firms declared a total of 63,430 audit works to ICAC between 1 October 2018 and 30 September 2019.

Their distribution by entity type was as follows:

Audit works	NUMBER	%
Credit institutions	201	0
Insurance companies	342	1
Banking foundations, payment institutions, and electronic money institutions	73	0
Investment service companies, collective investment undertakings, and management companies	4.838	8
Pension funds and the companies that manage them	1.264	2
Other entities not included in the above sections	56.756	89

Audit works



Based on the data contained in forms 02 and 03 sent by the practising auditors and audit firms, corresponding to the period ranging between 1 October from the previous financial year and 30 September 2019, the annual report entitled «Audit situation in Spain» is prepared. According to the Report on the Audit Situation in Spain in 2019, the number of practising auditors amounted to 3,939, 2,152 of whom perform their activity individually and 2,862 through a firm (1,040 auditors are both self-employed auditors and appointed partners or auditors of audit firms). The number of firms registered in the ROAC amounted to 1,411.

Information and Communication Technologies

Fully aware of the importance of Information and Communication Technologies (hereinafter, ICT) for society in general, and for this Institute in particular, during 2019 ICAC has driven the development of its own Digital Transformation Plan, within the global strategic framework of the Digital Transformation Plan of the General State Administration (AGE in Spanish) and its Public Bodies (PB).

The drafts of the Law on the Common Administrative Procedure of Public Administrations and on the Legal Regime of the Public Sector, the proposals made by the Commission for the Reform of Public Administrations, in which ICT plays a key role, as well as the recommendations of the OECD for the development of digital administration strategies, have all been kept in mind in the plan's development.

In order to drive a true digital transformation of ICAC, it must meet the following 5 strategic objectives on which the ICT Strategy is based, which have started to be implemented during 2019. These objectives are as follows:

- 1. To increase productivity and efficiency** in the internal operation of ICAC. To do this, the ICAC has signed an Entrustment to its Own Means to enhance the governance of ICT services. During this financial year, it has also contracted an annual maintenance contract for the Institute's applications and infrastructures.

2. To ensure that the **digital channel is the preferred means** of Auditors, Audit Firms, companies, and citizens in general to interact with ICAC.
3. To improve **efficiency in the provision of ICT services** within ICAC. To do this, various platforms have been set up for exchanging documentation between ICAC and other companies and entities, making use of the RED IRIS BDSW Platform. At the end of 2019, it has also implemented the PORTAFIRMAS application of the EAP (Electronic Administration Portal, Technology Transfer Centre).
4. To address an **intelligent corporate management of knowledge, information, and data**. In order to achieve this objective, during 2019 an internal line of work has started aimed at the future implementation of a BI (Business Intelligence) that facilitates the systematic, predictive and evaluative analysis of the multiple sources of data obtained from ICAC exercising its own powers in the field of Accounting and Accounts Auditing, as well as to establish activity and/or performance indicators, mainly those that are more focused on managing the risks of the organisation.
5. To continue progressing in the corporate **security and usability strategy**. To do this, plans have started during the 2019 financial year to implement an internal User Service Centre (USC) with the aim that it is fully operational by the second half of 2020.

Therefore, the execution of these lines of action has launched new and diverse technology projects in terms of both information systems and systems and communications infrastructures. This execution of the projects has started to very positively affect the optimisation of ICAC's activities, both its internal management activities and those referring to the Institute's interaction with other public and private bodies and entities.

Regarding the digital channel objective between ICAC and entities, both public and private, the corporate use of NOTIFICA as an electronic notifications tool was successfully implemented once the administrative steps and procedures to achieve this were started during 2018. The use of GEISER has also been consolidated to guarantee the Registry service launched during 2018. During 2019, the bases of the applications used to manage the ROAC have also been consolidated for the use of fully electronic information as of 2020. Finally, also during this financial year, a project has begun to migrate the current ICAC Electronic Headquarters to the ACCEDA platform of the AP.

The need to manage and maintain a series of platforms and applications arises from the electronic relationship with other administrative centres. These applications, managed and maintained by the ICAC in its relationships with third parties throughout 2019 are summarised below:

Applications for administrative steps between the ICAC and other Bodies		
Application-Platform	Content	Related centre
SOROLLA	Economic-budgetary management (proceedings and fixed cash advances)	IGAE
DOCEL WEB	Electronic signatures folder for budgetary management	IGAE
RED COA	Submission of annual accounts	IGAE
SIC-3 OAAA	Internal accounting	IGAE
SIC-INTECO	Non-taxable revenue	IGAE
SIC-CANOA	Standardised Analytical Accounting for Administrative Organisations	IGAE
CORENET	Request for material intervention to IGAE	IGAE
AUDINET	Permanent Financial Control and Public Audit	IGAE
SINOI	IGAE notifications	IGAE
GALA	Management of access permissions to the budgetary management information systems	IGAE
BDNS	National Subsidies Database	IGAE
CINCONET	Economic data of external queries	IGAE
ATENEA	Budgetary amendments	IGAE
NEDAES	Payroll management of public employees	Función Pública
BADARAL	Central Personnel Registry	Función Pública
FUNCIONA	HR procedures	Función Pública
SIGPE	Communications with the Public Function	Función Pública
CONECTA-CENTRALIZACIÓN	Centralised contracting	DGRCC
CMAE	ICT centralisation	SGAD
NOTIFICA	Authorised Electronic Address (DEH in Spanish) notifications	SGAD
GEISER	Online register	SGAD
PLATAFORMA CONTRATACIÓN DEL SECTOR PÚBLICO	Electronic tender	HACIENDA
ALMACEN	File exchange (Dropbox)	HACIENDA
SICOPO	Editorial Plan	Mº Presidencia
GAMO	Automated management of official mobility	PME-MINHAC

For the collection of non-taxable revenue, ICAC continues to use the INTECO platform.

In order to carry out the internal operations of each of its powers, the General Secretariat also manages its own applications, which were the following during 2019:

Internal work support applications	
Application	Content
ROACNET	Management and maintenance of the Official Registry of Accounts Auditors
TASAS_791	Management and maintenance of the fee service
DEPÓSITO DE CUENTAS	Management of sanctioning proceedings due to not filing accounts
ICAC-FORMACIÓN	Management of the continued training taught or received by training centres, corporations of auditors, and private auditors
PUBLICACAC	Management of the Publications Service
BIBLIOTECA	Management of the ICAC Library
MIESCRITORIO	Management of the actions of the General Directorate of Technical Control
CONSULTAS DE CONTABILIDAD	Management of accounting queries
SEDE ICAC	Platform for management and communication between Accounts Auditors, Audit Firms, Companies and Citizens with ICAC
MODELOS M02 & M03	Submission of the M02 & M03 by Auditors/Audit Firms

ICAC has an Electronic Headquarters integrated as a Headquarters of the Ministry of Economic Affairs and Digital Transformation, which comprises the following electronic procedures and services:

Electronic Headquarters of ICAC (<http://icac.gob.es>): List of PROCEDURES

- Sanctioning procedure due to a breach of the obligation to file accounts.
- Application for the refund of undue income (ICAC fees).
- Communication of the termination of the audit contract (art. 22.2 Law 22/2015).
- Sanctioning procedure due to a breach of the obligation to file accounts.
- Application for the refund of undue income (ICAC fees).
- Communication of the termination of the audit contract (art. 22.2 Law 22/2015).
- Communication of the circumstances determining the failure to issue or the resignation to continue with the audit contract (art. 5.2 Law 22/2015).
- Communication to the Accounting and Auditing Institute by the mercantile registries on the non-acceptance of the appointment made to an auditor (DGRN instruction dated 09/02/2016).
- De-registration of an accounts auditor from the Official Registry of Accounts Auditors.
- De-registration of an accounts audit firm from the Official Registry of Accounts Auditors.
- Amendment of the public data of an accounts auditor registered in the Official Registry of Accounts Auditors as a practising auditor (form R31).
- Amendment of the data of an accounts audit firm registered in the Official Registry of Accounts Auditors (form R51).
- Request for a certificate of registration in the Official Registry of Accounts Auditors as an auditor or firm (form R6).
- Consultation of grades from the professional aptitude test to access the Official Registry of Accounts Auditors.
- Consultation and communication of continued training activities of auditors.
- Validation of documents by EVC (Electronic Verification Code).
- My data and requests.
- Fee for the issuance of certificates or documents at the party's request and for entries and records in the Official Registry of Accounts Auditors (code 609) - article 88 of Law 22/2015, of 20 July, on Auditing.
- Amendment of the data of auditors not registered as practising in the Official Registry of Accounts Auditors (form R32).
- Amendment of the non-public data of auditors registered in the Official Registry of Accounts Auditors (form R33).
- Amendment of the non-public data of firms registered in the Official Registry of Accounts Auditors (form R52).
- Change of situation in the natural persons section of the Official Registry of Accounts Auditors (form R21).
- Registration/de-registration as an individual practising auditor, with no change of situation (form R22).
- Request for admission to the professional aptitude test to obtain registration into the Official Registry of Accounts Auditors.
- Information to be submitted by accounts auditors and audit firms. (forms 02 and 03).
- Fee for the control and supervision of the accounts auditing activity (code 608). Article 87 of Law 22/2015, of 20 July, on Auditing.
- Registration of an audit firm into the Official Registry of Accounts Auditors (form R4).
- Registration of an accounts auditor into the Official Registry of Accounts Auditors (form R1).

Regulatory projects and Audit Committee

En este período se han tramitado por Secretaría General en el ámbito de sus competencias un total de 39 informes y consultas, con el siguiente detalle:

- In this period, a total of 39 reports and queries have been processed by the General Secretariat within the scope of its powers, detailed as follows:
- One complaint/suggestion/claim.
- 17 access right requests in accordance with Law 19/2013, of 9 December, on transparency, access to public information and good governance.
- 21 queries. The queries received come from other Public Bodies that may have different content such as legal, statistical or informative issues or, where appropriate, may be sent by Courts or Prosecutors, and even individuals who may request information on occupational risk prevention data, quality in public administrations, CSR, MIS procedure, General Registry of Deposits, reduced administrative burdens, service inspections, among others.
- Organisation and coordination of the meetings of the Audit Committee (3 face-to-face meetings during 2019).

Economic-Financial Information

Economic data

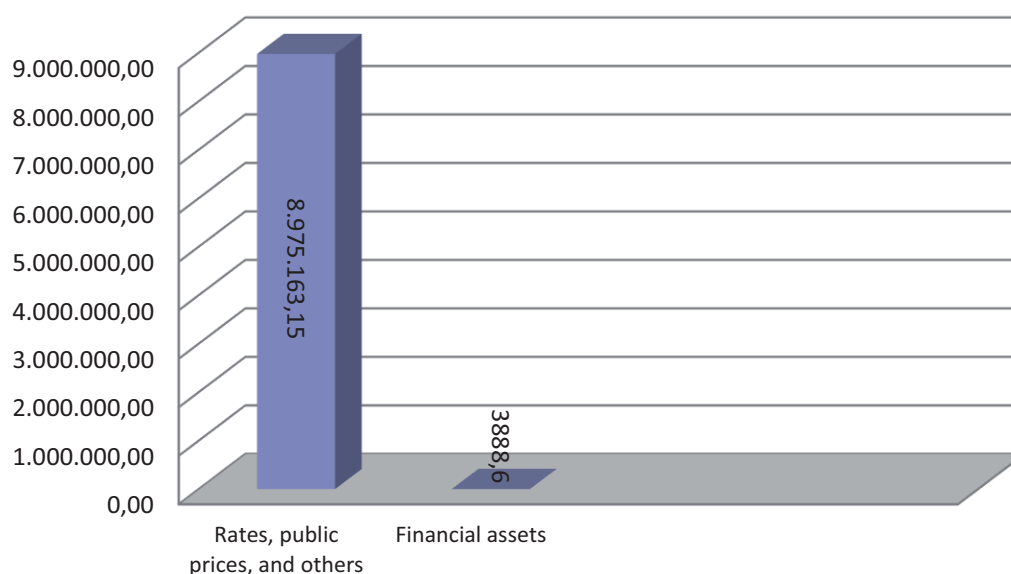
The Accounting department is responsible for keeping the Body's accounting records, preparing the annual accounts for their formulation and approval, management and control of payments, control of the treasury, preparation of budgets and budgetary amendments.

During the 2019 financial year, ICAC obtained revenue totalling €8,979,051.75, broken down as follows:

Implementation of the revenue budget

Chapter	Implementation of the revenue budget 2019	€	%
III	Fees, public prices, and others	8.975.163,15	99,94
VIII	Financial assets	3.888,60	0,06
TOTAL		8.979.051,75	100,00

Implementation of the revenue budget 2019

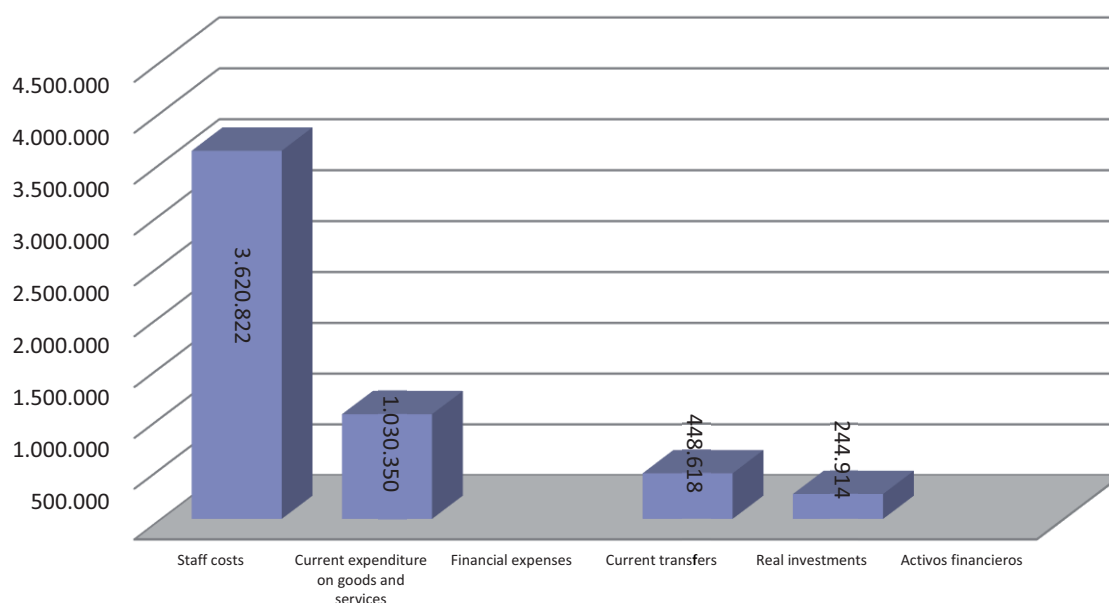


Implementation of the expenditure budget

In terms of the expenses recorded, these amounted to a total of €5,344,704.75 in the 2019 financial year, detailed as follows:

Chapter	Implementation of the expenditure budget 2019	€	%
I	Staff costs	3.620.821,87	67,75
II	Current expenditure on goods and services	1.030.350,47	19,28
III	Financial expenses	0	0
IV	Current transfers	448.618,47	8,39
VI	Real investments	244.913,94	4,58
VIII	Financial assets	0	0
TOTAL		5.344.704,75	100,00

Implementation of the expenditure budget 2019



Financing sources

ICAC 100% self-finances its activities. Its main financing source is the revenue obtained through two types of fees managed and collected by this body, regulated in Heading IV of the LAC:

- a) The ICAC fee for the control and supervision of the accounts auditing activity (art. 87): The exercising of the powers of control over the activity of auditing accounts by ICAC, in relation to the issuance of accounts audit reports, constitutes the taxable event of this rate. Its regulation is developed in RD 181/2003, adapted to the current needs. The fee amount is calculated based on the volume of work declared by accounts auditors and audit firms, as a logical correlate to the evolution of ICAC's workload in the supervisions to be performed based on this volume.
- b) The ICAC fee for the issuance of certificates or documents at the request of a party and for entries and records in the Official Registry of Accounts Auditors (art. 88): the exercising of ICAC's powers regarding the issuance of certificates or documents at the request of a party and the entries and records in the ROAC constitutes the taxable event of this rate. The self-assessment and payment regime for this fee is developed through Royal Decree 73/2016, of 19 February, which develops the self-assessment and payment regime of the fee charged by the Accounting and Auditing Institute for the issuance of certificates or documents at the request of a party, and for entries and records in the Official Registry of Accounts Auditors.

The Institute also has some less relevant revenue from the sale of publications.

Contracting

The contracting and signing of agreements have been necessary to carry out all activities, which are summarised below:

- a) Processing of procurement records: contracting or extension of centralised services, electricity supply, printing and distribution services of the BOICAC and of the Annual Directory of the ROAC and the IFRS, various support agreements, with companies and Corporations, through the carrying out of instrumental tasks in the inspections of accounts auditors and accounts audit firms, performed by ICAC by virtue of article 55 of Law 22/2015, of 20 July, on Auditing, maintenance service for ICAC's computer applications, development services for ICAC's web portal, renewal of computer licences, acquisition of laptops and miscellaneous computer equipment, acquisitions of furniture, lift maintenance services, building maintenance, maintenance of air conditioning units, various translations, occupational risk prevention services, support services to the ICAC Registry, accounting support and advice service, budgetary and tax system, support services in the scanning of documentation from the ICAC Registry and Library, support services to the Secretariat of the General Directorate of Technical Control, support services in the document management of the General Secretariat, English classes for ICAC staff, training course for Senior Management Secretaries, support services in the management of documentation and data from inspections, investigations or verifications of accounts auditors and accounts audit firms, consultancy and training services to adapt the functional content of the Petana-VISION v5.3 tool, food voucher issuance service for ICAC employees, contract for advice in the evaluation of continued training and waivers of the theoretical training required to access the ROAC, contract with IFAC for reproduction rights over works during 2019, minor works at ICAC (change of lighting and refurbishment of bathrooms), payment of municipal taxes and fees to International Bodies as a member of the International Forum of Independent Audit Regulators (IFIAR) and of the European Financial Reporting Advisory Group (EFRAG), for 2019.

The processing includes all phases: proposed expenses and their approval following the prior audit, commitment, acknowledgement of the obligation and payment order, and their shipment to Intervention, and following the favourable audit, the adoption of the corresponding agreements. In the case of fees to International Bodies, the request for various mandatory reports and their submission for the approval of the Council of Ministers. In the language contracts, in addition to forming groups, schedules are established and all relations with the Academy are managed.

In the case of open procedures or negotiated procedures, it also prepares the specifications of particular administrative clauses, sends them to the Legal Service report, holds Trading Desks, and drafts the corresponding contracts and sends them to the Legal Service for their report. In the Trading Desks for the open procedures, it performs the duty of Secretary and prepares the various minutes and communications with the bidders. In the event of an appeal, the allegations are drawn up and the necessary documentation is sent to the Central Administrative Court of Contractual Appeals (TACRC in Spanish).

In all contracts, except those of a minor nature, it publishes announcements on the Public Sector Contracting Platform (both in the bidding phase and the award and formalisation phase) and registers them in the Public Registry of Contracts. In minor contracts, the awards are published on the Platform to comply with the Transparency Law. When mandatory, official announcements on both the tender and the award are drawn up and sent to the Official Journal of the European Union and/or the BOE.

In contracts of an amount equal to or greater than €50,000, the request for a representative of the IGAE to verify the investments is processed.

In certain contracts depending on the amount, an extract of the file and the contract is sent to the Court of Auditors. Moreover, before the end of February each year, the list of awarded contracts, entrustments to own means, and collaboration agreements made during the previous year is sent to the Court of Auditors.

Preparation and presentation of model 347 on the annual declaration of operations with third parties.

- b)** Collaboration agreements: In 2019, the Agreement with the IGAE for the support and hosting of the Sorolla2 and Canoa systems has been modified and extended, and the Agreement between ICAC and the Spanish Association of University Accounting Lecturers (ASEPUC in Spanish) for the development of investigation and dissemination in accounting and auditing matters has been drawn up. To do this, it processes the reports of the Government Attorneys Office and Ministry of Finance and processes the files in all their phases. The agreement is also recorded in the REOICO and published in the BOE.
- c)** Entrustments to own means: In 2019, the following entrustments to own means have been carried out: Entrustment, to the company ISDEFE, of activities to support engineering in the specification, management and monitoring of ICT projects, and it has started the process for the Entrustment, to the company SEGIPSA, of works to draft the Preliminary Project, Basic Project and Execution Project for intervention at the headquarters of the Accounting and Auditing Institute in calle Huertas, 26 Madrid. The report of the Government Attorneys Office is processed, and the corresponding expense file is processed in all its phases. They are also published in the contractor profile of ICAC on the Public Sector Contracting Platform.
- d)** Management of fixed cash advance payments: including payments, accounting of operations, reconciliations, remittance of supporting accounts, remittance of treasury statements, responding to reports issued by the Audit Office and submitting the accounts to the Court of Auditors.
- e)** Management of reimbursements of expenses:
 - National and international subsistence allowances: preparation of service commission orders for their approval, examination of supporting documents for expenses incurred and settlement of the corresponding subsistence allowances and expenses. Where appropriate, the advance payments requested are calculated. The payment of both the advance payment and the settlement is made through the fixed cash advance payments system.
 - Urban allowances: settlement of the allowances that are presented quarterly due to movements in the municipality. Payment is made through the fixed cash advance payments system.
 - Attendance at the Accounting and Audit Committees: settlement of the corresponding attendance costs and payment through the fixed cash advance payments system, management of authorisations by the Secretariat of Budgets and Expenses, the half-yearly preparation of the statistics of the amounts paid for attendance at the different Committees, for their communication to the Ministry of Finance.

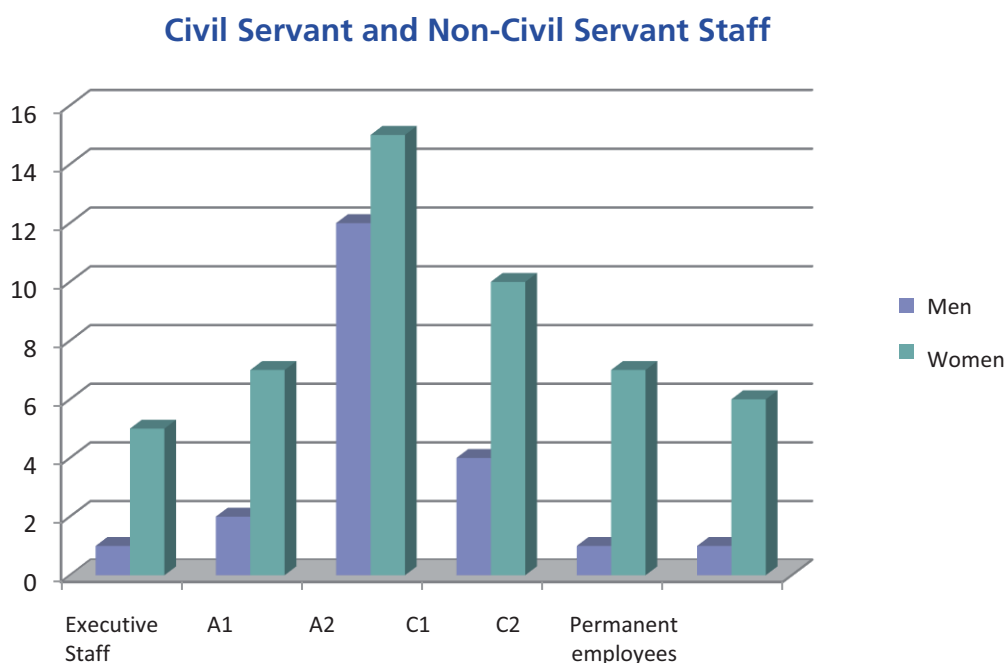
- Attendance at training courses taught to ICAC staff: settlement of the corresponding reimbursements, depending on the number of hours, payment of the corresponding personal income tax withholdings, management of authorisations by the Secretariat of Budgets and Expenses, the half-yearly preparation of the statistics of the amounts paid, for their communication to the Ministry of Finance.

Human Resources

The General Secretariat manages all activities related to the staff such as the preparation of payroll, recognition of degrees, recognition of three-yearly wage rises, calls for tender, processing of service commissions, social action, timetable control, holidays, etc.

Reflected below are the most important data relating to ICAC's human resources at the end of 2019.

List of Civil Servant and Non-Civil Servant Staff by levels and gender:



Civil Servant and Non-Civil Servant Staff			
STAFF TYPE	MEN	WOMEN	TOTAL
SENIOR POSITIONS	1	0	1
CIVIL SERVANTS:			
Executive Staff	2	6	8
Group A1	3	6	9
Group A2	12	15	27
Group C1	5	10	15
Group C2	1	7	8
Professional groups	0	0	0
TOTAL	23	44	67
OTHER STAFF:			
Contracted administrative employees	0	0	0
Other staff	0	0	0
TOTAL	0	0	0
NON-CIVIL SERVANT STAFF RECRUITED:			
Chapter I Full-time	1	6	7
Chapter I Part-time	0	0	0
Chapter VI	0	0	0
TOTAL	1	6	7

Publications and investigation, study, documentation, disclosure activities necessary for the development and improvement of the accounting standardisation and accounts auditing.

One of the studies published annually refers to the audit situation in Spain. The Report on the Audit Situation in Spain 2017/2018. Like the Control Plan of the Auditing Activity for 2019, it has been published in the Official Gazette of this Body corresponding to June 2019 (BOICAC number 118).

- It is worth highlighting that the quarterly publication of the Official Institute Gazette (BOICAC) implies, in addition to complying with that established in Law 22/2015, of 20 July, on Auditing, and other standards regulating ICAC's activity, the disclosure of any relevant aspect in accounting and accounts auditing, as well as the queries addressed to this

Body, with a response issued, which are published in the Institute Gazette due to the interest in their disclosure so that they can be generally studied.

The content of every BOICAC is also reported on the Institute's website.

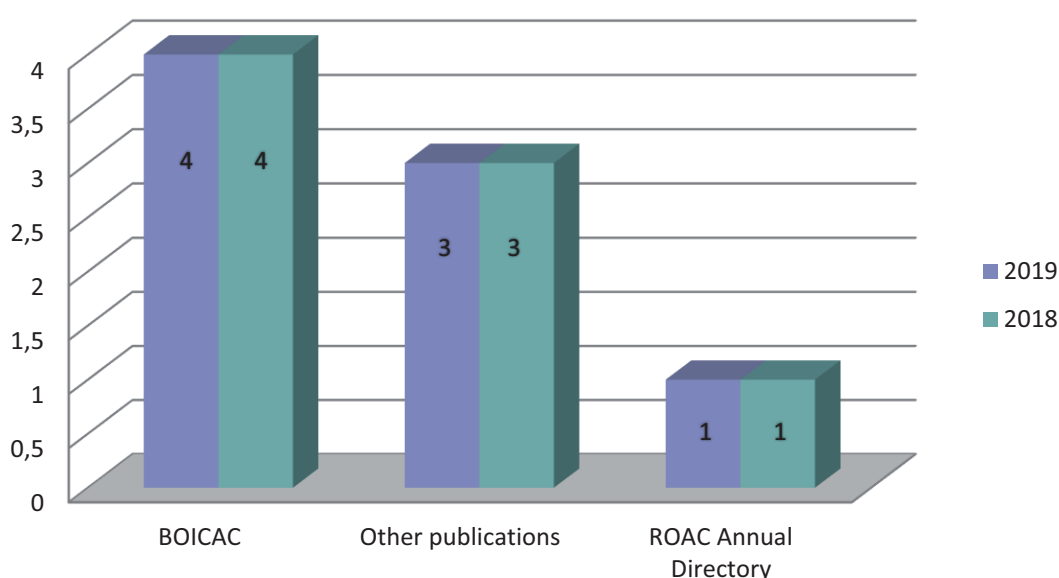
In this sense, it is reported that, through the Resolution dated 2 July 2019, of the Institute of Accounting and Accounts Auditing, the publication is determined in electronic format with free access on the BOICAC website and in the Annual Directory of the ROAC, therefore ceasing the printed edition, as well as its sale.

- Likewise, through their edition and sale to the public by subscription, access to International Standards has been facilitated, which are adopted by the European Union and which are first published in its Official Gazette (DOUE).

In summary, the specific actions developed during 2019 regarding titles published compared to the previous year have been as follows:

Publications	2019	2018
BOICAC	4	4
Other publications	3	3
ROAC Annual Directory	1	1

Publicaciones



Starting in 2018, in order to facilitate access to the titles that are published on paper by this body and that are out of print, the text was made available in reading mode to interested parties on <http://www.icac.meh.es>. For all these titles, access is open and incurs no charge on ICAC's website under the section: Publications service. The search for what is published in each Gazette has also been streamlined through the summaries listed in the illustrative file of each number.

During 2019, the Collaboration Agreement signed in 2015 between the Accounting and Auditing Institute (ICAC) and the State Agency of the Official State Gazette (AEBOE in Spanish) has continued, for the co-edition of the «CODE OF FINANCIAL AND COMPANY ACCOUNTING». The same has occurred with the «ACCOUNTS AUDIT CODE», whose agreement was signed in 2016.

Both titles are available on the AEBOE website with open and free access, updating any standard that ICAC deems to form an essential part of the Accounting or Accounts Auditing regulations at the time of publication.

As a continuation of the collaboration established with AEBOE, it is planned to incorporate other regulatory titles during 2020 with access through the AEBOE website.

Moreover, in exercising the powers attributed in relation to the disclosure of the matters referred to in the powers of this Institute, and for a better exercising of its attributed functions, the contract signed in 2018 with ASEPUC for the development of technical opinions in accounting and auditing matters remains in force.

In 2019, the Report-Technical Opinion entitled «*The effects of rotation after the entry into force of the European Regulations and the Accounts Auditing Law*» has been published on the body's website.

