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DE ASUNTOS ECONÓMICOS
Y TRANSFORMACIÓN DIGITAL

icac Instituto de Contabilidad y
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annual report 2020

annual activity report

ANNUAL ACTIVITY REPORT 2020

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LETTER FROM THE CHAIRMAN ANNUAL REPORT OF ACTIVITIES IN 2020

The COVID-19 pandemic dominated developments in 2020 dramatically. While it had a major impact in terms of loss of life, the pandemic also significantly affected our way of life and economic activities. The Accounting and Auditing Institute “Instituto de Contabilidad y Auditoría de Cuentas” (ICAC) was by no means immune to the pandemic, which affected how we work and our own activities, since the ICAC played an active role in the government’s response to curb the effects of the pandemic on economic activity.

The Institute nonetheless continued its essential activity in the regulatory and supervisory spheres, contributing to the quality and reliability of financial information in Spain, as the surest guarantee to protect end users, and thus, generating confidence and security in business activity.

A series of organisational and methodological changes were rolled out in 2020 to modernise and render a more efficient organisation in its activities. Digitisation, procedural documentation and the approach to these procedures have thus, become instruments for achieving our objectives.

There have also been changes in the heads of certain sub-directorates of the institution, bringing with them a new approach to the corresponding activities. One particularly noteworthy change in the Subdirectorate General of Technical Control, entailed the search for greater agility in supervisory action that would achieve the objectives of extending the preventive nature of inspections; extending inspection activity to the greatest possible number of firms and auditors, and transforming inspection activity into a tool for guaranteeing the quality with which audits are carried out.

Transparency is an essential part of the activities of any supervisory authority, since, in addition to being an internal control mechanism, it also serves to strengthen confidence in the activity subject to supervision, namely auditing and financial reporting in the case of the ICAC. The ICAC, therefore, also ensures that its annual control plans and this report on the activities carried out in 2020 are also available to the public.

In the field of regulatory production, the most significant aspects of the year’s activity were the culmination of two particularly relevant regulations, which were published in the Official State Gazette on 30 January 2021: the Regulation implementing the Spanish Auditing Act (Law 22/2015) and the amendment of the Spanish National Chart of Accounts. Another notable development is the publication of the Resolution on 13 February 2021, regarding the recognition of revenue from the delivery of goods and provision of services.

The Audit Regulation will certainly increase transparency in how auditors operate, bolster confidence in auditing, and increase the efficiency of the auditing market. We should underscore the considerable degree of consensus achieved among professional auditors’ representative organisations when processing this Regulation, since their involvement has unquestionably

improved the regulation as a whole and will allow us to continue working together on the necessary regulatory developments that we must face, particularly with regard to quality control legislation.

The reform of the Spanish General Accounting Plan remains consistent with the strategy to harmonise Spanish accounting law with the international accounting standards adopted by the European Union (EU-IFRS), and entailed adapting two significant international standards, one relating to financial instrument accounting (EU-IFRS 9) and the other to revenue recognition (EU-IFRS 15).

This adaptation does not apply to SMEs, as it considers the principles of simplification and proportionality, and also recognises that the companies applying the Chart of Accounts do not fit into the financial sector, thereby leading to the introduction of certain simplifications.

The Institute has continued its involvement in different international institutions. Participation in organisations such as EFRAG (European Financial Reporting Advisory Group), the Commission of European Auditing Oversight Bodies (CEAOB) or the IFIAR (International Forum of Independent Audit Regulators) ensures that the Spanish point of view is considered in the regulatory sphere and in aspects related to auditor oversight methodology. Some salient aspects of this involvement in 2020, include the process of amending the Non-Financial Reporting Directive and EFRAG's role in relation to this issue.

In terms of statutory audit oversight activity, the aforementioned changes have already begun bearing fruit in 2020. These changes were embodied in the successfully completed Control Plan for the year, which incorporated a significant increase in actions compared to the previous year, heralding a broader extension of supervisory activity in the coming years. Methodological improvements will therefore be necessary, alongside continuing the bolstering of available technical and human resources with a view to further improving efficiency in the coming years in the fulfilment of the entrusted function.

The achievements of ICAC in 2020, as a whole, would never have been possible without the ongoing digital transformation process, which forms part of the overall strategic framework of the Digital Transformation Plan for the General State Administration (GSA), and also without the exceptional professionalism of ICAC personnel, who have been resilient in adapting to remote working methods without any reduction in performance.

An adequate endowment of personnel with the level of preparation and professionalism demonstrated in such a complicated year, together with the appropriate technical and organisational resources are undoubtedly a guarantee that the ICAC will continue achieving its objectives and, therefore, playing a part in affirming the reliability of financial reporting in Spain.

Madrid; April 2021
SANTIAGO DURÁN DOMÍNGUEZ
Chairman of The ICAC
(Accounting and Auditing Institute)

EXECUTIVE SUMMARY 2020 REPORT

The Spanish Accounting and Auditing Institute (ICAC) pursued its activities throughout 2020 concerning its attributed duties. Namely:

Accounting

The Spanish General Accounting Plan and its complementary provisions were finalised in the course of the year. The reform sought to better harmonise Spanish accounting legislation with international standards to guarantee the comparability of financial reporting, incorporating the improvements under EU-IFRS 15 *Revenue from Contracts with Customers*, to account for revenue in accordance with the basic principle of transfer of control, and by EU-IFRS 9 *Financial Instruments*, with the aim of improving the true and fair view of the management of financial instruments.

The ICAC also finalised its draft resolution on the recognition of revenue from the delivery of goods and services, as a supplement and implementation of Recognition and Measurement Standard 14 of the Spanish General Accounting Plan, updated in the amendment of the Spanish General Accounting Plan.

This process resulted in the following standards:

- Royal Decree 1/2021 of 12 January (Official State Gazette of 30 January) amending the Spanish General Accounting Plan approved by Royal Decree 1514/2007 of 16 November; the Spanish General Accounting Plan for Small and Medium-sized Enterprises approved by Royal Decree 1515/2007 of 16 November; the Standards for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010 of 17 September; and the Standards of Adaptation of the Spanish General Accounting Plan for Non-profit Entities approved by Royal Decree 1491/2011 of 24 October.
- The ICAC Resolution of 10 February 2021 (published in the Official State Gazette on 13 February), which lays down recognition, measurement and financial reporting standards for the recognition of revenue from the delivery of goods and services.

The Institute also has a growing participation in the international forums in which it is present, particularly in the activities of the EFRAG (European Financial Reporting Advisory Group) for Europe and the IASB (International Accounting Standards Board) beyond Europe, and also through our involvement at the European level in non-financial reporting.

The ICAC's international activity in accounting matters involves the constant analysis and study of the EU-IFRS so that decisions can be taken to harmonise national legislation with international standards. The ICAC also has a growing presence in international forums, thereby boosting participation in standard-setting projects at an early stage, and achieving greater influence on decision-making and final outcomes of such projects.

The ICAC has been most actively involved in the following projects in EFRAG and IASB in 2020: the preparation of the final version of IFRS 17 (Insurance Contracts), which represents a major change in accounting in the insurance sector; the General Presentation and Disclosures Project, which seeks to improve the presentation of financial information and its comparability; and the “Business Combinations—Disclosures, Goodwill and Impairment” project, which seeks to improve accounting for this type of transactions.

The ICAC also participated in the public consultation issued in 2020 by the European Commission, namely the “Public consultation on the revision of the Non-Financial Reporting Directive (NFRD)” on the degree of satisfaction and adequacy of the non-financial aspects of the European accounting framework. This public consultation was the key element for the Commission to commit to revising the Non-Financial Reporting Directive (Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014).

Auditing

The draft regulations implementing the Audit Act were finalised in 2020, culminating in Royal Decree 2/2021 of 12 January, which approved the implementing regulations of the Audit Act 22/2015 of 20 July (Official State Gazette of 30 January 2021). International Standard on Auditing ISA 540 (revised) “Auditing accounting estimates and related disclosures” was incorporated; ISA-ES 720 (revised in accordance with the amendment of article 35 of the Audit Act as amended by Law 11/2018 of 28 December) was also amended. Moreover, the Technical Auditing Standard (hereinafter, TAS) on the preparation of the supplementary report on the audit of the financial statements of credit institutions and financial credit institutions was published. In addition, work began on the preparation of a TAS on the auditor’s responsibilities in relation to financial statements presented in the European Single Electronic Format (ESEF), which in turn required an amendment to ISA-ES 700 (revised) to bring the auditor’s report format in line with the content of this TAS. In addition, all other actions related to the regulation of auditing, with notable volume, for yet another year, in *consultations on specific aspects of the application of audit legislation*.

With regard to control activities, a process of modernising the organisation of the inspection and investigation areas and their procedures was initiated during 2020, with the aim of increasing the number of annual actions. As a result of this initiative, there was a significant increase in the number of inspections and investigations conducted in 2020, even in the complex context of the pandemic situation. The number of inspections increased by 150% and the number of investigations by 31%.

Within these control activities, the areas for improvement detected in 2020 are broadly in line with those identified in previous years. In the actions carried out, it can be seen that the number of recommendations for improvement is reduced in cases where several inspection cycles have been carried out on the same firm, which shows the preventive effect of the inspections and the efforts made by the firms to improve the quality of the audits. The areas of independence and the performance of assignments continue to be highlighted as areas on which auditors should focus in particular on improving the internal quality control system.

It is worth highlighting the increase in the Institute’s activity in relation to the approval of courses for continuing education in the Webinar format.

In relation to the international area, the report highlights the main activities carried out in the *international forums* in which the Institute participates, through the CEAOB (Commission of European Auditing Oversight Bodies) or IFIAR (International Forum of Independent Audit Regulators), including the issuance of comment letters on ISA 600 [Special considerations - Audits of group financial statements (including the work of component auditors)] and the exchange of information regarding the application of the requirements of the European Single Electronic Format (ESEF).

Digital Transformation

Finally, the ICAC continued to implement the lines of action of its own Digital Transformation Plan in 2020, as it is fully aware of the importance of Information and Communication Technologies (hereinafter, ICT) for society in general and for this Institute in particular. More specifically, the technological infrastructure renovation was successfully completed in 2020, including workstation optimisation to render efficient solutions in record time for the new teleworking situation emerging from the COVID 19 pandemic.

Considerable progress was also made in 2020 in the ICAC's digital drive, including the development of a new website, the implementation of collaborative work tools, the start of the development of a new e-Office and, in general, the comprehensive migration of ICT services to the GSA's common service platforms. All the lines of action implemented in 2020 and planned for 2021 will increase the efficiency of the Agency's specific activities by automating procedures and exploiting key information for strategic decision-making.

CONTENTS

I INTRODUCTION

- I.1 THE ICAC**
- I.2 STRATEGY**
- I.3 GOVERNING BODIES**
- I.4 ORGANISATIONAL STRUCTURE**

II ACCOUNTING AREA

- II.1 INTRODUCTION**
- II.2 REGULATORY ACTIVITY**
 - Spanish General Accounting Plan Amendment
 - Other regulatory developments
- II.3 QUERIES**
- II.4 INTERNATIONAL ACTIVITY**
 - EFRAG
 - Accounting Regulatory Committee
 - Further activities
- II.5 ACCOUNTING BOARD AND ACCOUNTING ADVISORY COMMITTEE**
- II.6 NON-FINANCIAL REPORTING**
- II.7 COOPERATION WITH OTHER AGENCIES AND INSTITUTIONS**

III AUDIT AREA

- III.1 INTRODUCTION**
- III.2 THE SPANISH AUDIT SECTOR**
 - Official Registry of Statutory Auditors: Registered auditors
 - Official Registry of Auditors
 - Calls for admission to the Registry of Statutory Auditors (exams)
- III.3 AUDIT REGULATION**
 - Further regulatory engagements
 - Auditor training. Access
 - Continuing education
- III.4 ACTIVITY CONTROL: INVESTIGATIONS AND INSPECTIONS**
 - Inspections
 - Investigations
 - Whistleblowing
 - Training, transparency and assignments
- III.5 OVERALL RESULTS AND CONCLUSIONS REACHED ON THE QUALITY CONTROL SYSTEM**
- III.6 DISCIPLINARY ACTIVITIES**
- III.7 COMMUNICATIONS ISSUED**

III.8 RESPONSE TO QUERIES

III.9 INTERNATIONAL ACTIVITY

CEAOB

Meetings of the Audit Regulatory Committee (AuRC)

Further engagements. Supervisory colleges

IFIAR

III.10 THE AUDIT COMMITTEE

IV DEPOSIT OF ACCOUNTS

V ICAC ORGANISATION AND MANAGEMENT

V.1 ORGANISATIONAL STRUCTURE

General Secretariat

Subdirector General of Accounting Standardisation and Technique

Subdirector General of Technical Audit Standards

Subdirector General of Technical Control

V.2 HUMAN RESOURCES AND ADMINISTRATION

V.3 INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

V.4 ECONOMIC AND FINANCIAL MANAGEMENT

Revenue budget execution

Expenditure budget execution

Procurement

V.5 RESEARCH AND DISSEMINATION ACTIVITIES

VI PUBLIC COMMUNICATIONS

VI.1 COMPLAINTS AND SUGGESTIONSS

VI.2 CLAIMS

VI.3 TRANSPARENCY PORTAL

VI.4 QUERIES AND REPORTS ISSUED

I INTRODUCTION

I.1 THE ACCOUNTING AND AUDITING INSTITUTE

The Accounting and Auditing Institute (ICAC) is an autonomous body created by Law 19/1988 attached to the Ministry of Economic Affairs and Digital Transformation through the Undersecretariat, and is governed by the pertinent laws and general provisions, and, in particular, by the provisions of the Legal Regime of the Public Sector Act (Law 40/2015 of 1 October, hereinafter Audit Act) foreseen for these kind of public entities the specific provisions of the Audit Act (Law 22/2015 of 20 July), the implementing regulations thereof approved by Royal Decree 2/2021, and in its Statute, approved by Royal Decree 302/1989.

In accordance with the aforementioned regulation, the ICAC is responsible for two main blocks of functions, related primarily to accounting standardisation and to auditing.

The ICAC's powers in the area of accounting regulation are set out in Article 2 of its Statute:

- Performance of the technical work and proposal of the Spanish General Accounting Plan adapted to European regulations and the laws regulating these matters, as well as the approval of the adaptations of this Chart of Accounts to the different sectors of economic activity.
- Establishment of the criteria for the development of those points of the Spanish General Accounting Plan and the sectorial adaptations thereof that are deemed appropriate for the correct application of these standards, which will be published in the Institute's Official Gazette.
- Permanent improvement and updating of accounting planning, to which end it shall propose the legislative or regulatory amendments necessary to harmonise them with the provisions emanating from the European Union or in accordance with accounting progress itself.
- Performance and promotion of research, study, documentation, dissemination and publication activities necessary for the development and improvement of accounting standardisation.
- Coordination and technical cooperation in accounting matters with international bodies, in particular with the European Union, as well as with national bodies, including public law corporations, associations and research bodies.

In the field of auditing, article 46 of the Audit Act places the ICAC as the authority responsible for the public oversight system and, in particular, for the following functions:

- Authorisation and registration of auditors and audit firms in the Official Registry of Auditors. Registration is a necessary condition to practise auditing in Spain, and the Official Registry of Statutory Auditors reports to the ICAC.

- Adoption of ethical standards, internal quality control standards in the audit activity, technical auditing standards under the terms of this Act, and the supervision of proper compliance therewith.
- Continuing education for statutory auditors.
- Regular monitoring of developments in the market for audit services in the case of public interest entities.
- Disciplinary measures.
- The system of inspections and investigations.

Additionally, article 283 of the consolidated Text of the Corporate Enterprises Act grants the ICAC the power to impose sanctions in the event of non-compliance by the administrative body of the companies with the obligation to file the financial statements within the established deadline.

I.2 STRATEGY

In 2020, the ICAC pursued its mission to generate confidence and security in the economy by providing an appropriate regulatory framework to guarantee the reliability of financial reporting in terms of formulation (accounting) and verification (auditing), thereby serving as the main driving force behind the quality of audit activities in Spain.

The Institute further focused on modernising in 2020 by implementing certain specific actions in terms of both digitalisation and accounting regulation and supervision of the audit activity. The ICAC's values must always be borne in mind to ensure that all its activities are directed towards achieving its mission under the highest standards of behaviour, both of the institution and its staff.

The ICAC draws up annual action plans to carry out entrusted duties. In the specific case of the audit activity, the Control Plan has been published on the ICAC's website and sets out the main lines of action to be taken in 2020.

Pursuant to Article 61 of the Audit Act, the Institute publishes this activity report and also the overall results and conclusions reached in the inspections on auditors' quality control systems conducted in 2020.

I.3. GOVERNING BODIES

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

Chairman: with the rank of Director General and appointed by the Government at the proposal of the Minister of Economic Affairs and Digital Transformation, the Chairman is the legal representative of the ICAC, exercising the powers assigned by this Act and any others determined by regulations.

Audit Committee: the body to which matters relating to the following are mandatorily submitted for consideration by the Chairman: Establishment of the standards to be followed by the professional aptitude examinations required for access to the Official Registry of Auditors, as well as the calls for these examinations approved and published by Ministerial Order; the publication of the auditing, ethics and internal quality control standards that are drawn up, adapted or revised by the professional associations representing those carrying out the audit activity or, where appropriate, by the ICAC; proposals for legislative or regulatory amendments submitted to the Minister of Economic Affairs and Digital Transformation in relation to the regulations governing the audit activity; standards for continuing education; the resolution of queries submitted to the ICAC by auditors as a result of the exercise of this activity, provided that they are considered to be of general interest; and any others deemed appropriate by the Chairman, excluding those related to the exercise of sanctioning powers.

The ICAC Chairman presides over the Audit Committee, which is made up of a maximum of thirteen members appointed by the Minister of Economic Affairs and Digital Transformation, with representatives from the Directorate General of Insurance and Pension Funds, Ministry of Finance through the General State Administration Comptroller's Office, Accounts Review Tribunal, professional associations representing auditors, Bank of Spain, National Securities Market Commission, State Attorney's Office; judiciary, public prosecutor or commercial registrar; universities, and an expert of renowned repute in accounting and auditing.

Accounting Board: the body competent, after having heard the Accounting Advisory Committee, to assess the suitability and adequacy of any proposed accounting standards or interpretations of general interest with the Conceptual Accounting Framework regulated in the Commercial Code. To this end, it reports to the competent bodies and agencies prior to the adoption of accounting standards and their interpretations, issuing a corresponding non-binding report.

The Accounting Board is chaired by the Chairman of the ICAC, who has the casting vote, and is made up, together with him, of one representative from each of the other centres, bodies or institutions with regulatory powers in accounting matters in the financial system: Bank of Spain, National Securities Market Commission (CNMV) and Directorate General of Insurance and Pension Funds. A public employee of the ICAC shall attend as Secretary of the Board, with the right to speak but not to vote.

A representative of the Ministry of Finance, appointed by the head of the Department, also sits on the Accounting Board, with the right to speak but not to vote.

The Accounting Advisory Committee is the advisory body to the Accounting Board. This Committee will comprise accounting experts of renowned repute in relation to economic and financial reporting, representing both Public Administrations and the different sectors involved in the preparation, use and dissemination of such information.

1.4 ORGANISATIONAL STRUCTURE

The ICAC is structured into the following sub-directorates general:

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

The competences of each of these Sub-directorates General are set out on the ICAC website at the following link: <https://www.icac.gob.es/icac/competencias#secretaria-general>.

II ACCOUNTING AREA

II.1. INTRODUCTION

One of the main aspects of the ICAC's activity in 2020 in the field of financial reporting was the culmination of the amendment of the Spanish General Accounting Plan and its complementary standards (or the preparation of consolidated financial statements and the adaptation of the Spanish General Accounting Plan to non-profit organisation), which was finally approved by Royal Decree 1/2021 of 12 January.

Moreover, in the area of non-financial reporting, this Institute has participated in the public consultation issued by the Commission on 20 February 2020 on the revision of the Non-Financial Reporting Directive. It has also responded to EFRAG's invitations to provide an opinion on the key elements to be taken into account by EFRAG, which is mandated by the Commission to prepare a proposal as a possible issuing body for non-financial reporting in the European Union.

II.2 REGULATORY ACTIVITY

Spanish General Accounting Plan Amendment

In 2020, a draft bill was finalised to amend the Spanish General Accounting Plan approved by Royal Decree 1514/2007 of 16 November; the Spanish General Accounting Plan for Small and Medium-sized Enterprises approved by Royal Decree 1515/2007 of 16 November; the Standards for the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010 of 17 September; and the Standards of Adaptation of the Spanish General Accounting Plan for Non-profit Entities approved by Royal Decree 1491/2011 of 24 October.

The purpose of the reform is to amend the Spanish General Accounting Plan and its complementary standards (for the preparation of consolidated financial statements and the adaptation of the Spanish General Accounting Plan to non-profit organisations) in order to adapt these texts to recent European Union accounting regulations on financial instruments and the recognition of revenue from ordinary activities.

The Spanish General Accounting Plan was amended under the premise that the incorporation of international criteria in individual accounts to replace those in force should only be accepted when it is evident that the new treatment under the European Union's International Financial Reporting Standards (EU-IFRS) is more useful and appropriate for users of individual annual accounts in economic decision-making; either because it simplifies the understanding of financial statements or because the requirements incorporated are proportional and appropriate to the nature and size of the companies to which they apply.

The aims of the standard can be summarised as follows:

- Harmonise our accounting system with international accounting standards on financial instruments and revenue recognition, in accordance with the criteria of simplification,

proportionality and appropriateness. In particular, the objective was to make the necessary changes to align Recognition and Measurement Standard 9 “Financial Instruments” and Recognition and Measurement Standard 14 “Revenue from Sales and Services” with EU-IFRS 9 and EU-IFRS 15, respectively.

- Reform the Spanish General Accounting Plan and its complementary provisions from the perspective of the relevance of the new international standards for non-financial companies.
- Examine international criteria from a critical perspective so that the Spanish General Accounting Plan and its complementary provisions does not adopt rules that are not deemed to improve the relevance and reliability of the financial reporting of entities applying the Spanish General Accounting Plan.

This amendment will incorporate the following main new features into the Spanish General Accounting Plan:

- Alignment of Recognition and Measurement Standard 9 with EU-IFRS 9, in particular as regards the classification and measurement of financial instruments and the treatment of hedge accounting. With regard to the impairment model, it is important to mention that it has been decided not to incorporate into the Spanish General Accounting Plan the model based on the concept of expected loss introduced by the aforementioned EU-IFRS, but to maintain the criterion that has been applied to date, based on incurred loss, as it is considered to be more useful and appropriate in the sphere of non-financial companies.
- Revision of the definition of fair value included in section 6.2 of the Conceptual Accounting Framework, in line with EU-IFRS 13 Fair Value Measurement.
- Alignment of Recognition and Measurement Standard 14 to EU-IFRS 15 on revenue recognition to incorporate the core principle of recognising revenue when control of the committed goods or services is transferred to the customer and at the amount expected to be received from the customer, based on a sequential step-by-step process.

The Spanish General Accounting Plan for Small and Medium-sized Enterprises has also been amended, albeit with a very limited scope, consisting in a technical improvement related to the appropriate criterion for the presentation of capital increases, accounting criterion for the application of the result in the shareholder, standard for the preparation of the notes to the financial statements, and aligning the definition of fair value to the concept incorporated in the Spanish General Accounting Plan.

In this year, and in compliance with article 26.5, fourth paragraph of Law 50/1997 of 27 November, the corresponding and necessary internal administrative procedures have been followed, obtaining the favourable opinion of the Council of State, in addition to the reports and opinions required for its referral to the Council of Ministers for final approval.

In this regard, the Institute has analysed all comments received by these public administration bodies or other institutions by means of a thorough and detailed study of each one in order to, where appropriate, decide whether to include wording in the bill that would constitute an improvement in the relevance and reliability of the financial information of the entities that will apply this text, including Council of State opinion No. 363/2020 of 9 October 2020.

The draft Royal Decree was approved by the Council of Ministers on 12 January 2021 and published in the Official State Gazette as Royal Decree 1/2021 on 30 January 2021, and will be applicable for the years beginning as of 1 January 2021.

Other regulatory developments

- a) The ICAC draft resolution implementing recognition, measurement and financial reporting standards for the recognition of revenue from the delivery of goods and services. Its aim is to complete and standardise the accounting criteria for recognising revenue from the delivery of goods and services in order to improve the regulatory system and increase legal certainty, in line with international standards, by regulating in detail a wider range of cases for which, in some transactions, practice had been disparate.

The Resolution constitutes the regulatory development of the criteria for the recognition of revenue from the delivery of goods and provision of services. The amendment of Recognition and Measurement Standard 14 of the Spanish General Accounting Plan incorporated the core principle of recognising revenue when control of the committed goods or services is transferred to the customer and at the amount expected to be received from the customer, based on a sequential step-by-step process. The third part of the Plan has also expanded the requirements for information to be included in the report.

This Resolution provides users of financial statements, in particular companies and their auditors, with a set of interpretations to enable them to comply with their respective obligations under Spanish law.

The aims of the standard can be summarised as follows:

- Securing the necessary harmonisation between international accounting standards and our accounting system in terms of recognising revenue from the delivery of goods and services, already taken as a reference for drafting the 14th Recognition and Measurement Standard (RMS 14). Revenue from sales and services under the Spanish General Accounting Plan.
- Improve the quality of financial reporting, particularly on revenue recognition, so that revenue will be recognised when the company transfers control of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled.
- Establish revenue recognition criteria, based on a 5-step sequential process, starting with the rules for identifying the contract (including guidelines on combining and modifying contracts). A major aspect of the method is undoubtedly the part dedicated to identifying the obligations to be fulfilled that are explicitly or implicitly accrued in the agreement.

In addition to the prior consultation and public hearing procedures, and as with the project it develops, the Resolution has been drafted at the ICAC with the participation of a large group of experts representing all the users affected by the standard, which has contributed to greater accuracy and technical consensus in the regulation it contains.

In this regard, the Institute has examined these observations and any received by other public administration bodies or institutions by means of a detailed study of each one in order to, where appropriate, decide whether to include wording in the bill that would constitute an improvement in the relevance and reliability of the financial information of the entities that will apply this text.

The Resolution was published on 13 February 2021 and will enter into force on the day following its publication, being applicable for the years beginning on or after 1 January 2021.

- b) Work for the preparation of the Draft Resolution of the ICAC (ICAC) establishing standards for the recording, measurement and preparation of financial statements for transactions between group companies.

The 21st Recognition and Measurement Standard (RMS 21) in the Spanish General Accounting Plan regulates transactions between group members, transactions carried out between group members, as defined in the definition of the latter concept in the 13th standard for preparation (Group, multi-group and associated companies) of the Spanish General Accounting Plan. This standard was redrafted by Royal Decree 1159/2010 of 17 September, approving the Standards for the Preparation of Consolidated Financial Statements.

In transactions between group companies or related parties, the absence of conflicting interests requires extreme caution in such an analysis to avoid that a succession of legal transactions and their corresponding accounting record could be the means used to contravene mandatory regulating standards for corporations. For this reason, the ICAC has been developing the regulations of the RMS 21 through the publication of consultations on this matter in the Institute's Official Gazette (BOICAC).

For this reason, and taking into account that one of the main reasons underlying related company transactions is the issue of valuation and the need to report them adequately, work is currently underway to prepare a draft project that will be analysed by the Working Group to be set up for this purpose within the ICAC, which will be made up of professional experts of recognised prestige in accounting matters, with the aim of developing and grouping together all the doctrine issued by the ICAC to date.

Likewise, taking into account that transactions between companies under common control is a matter whose regulation is being developed by the International Accounting Standards Board (IASB), the body responsible for issuing the International Financial Reporting Standards (IFRS), based on the draft project prepared, the Working Group to be set up, in the development of the task assigned to it, will work from the perspective of convergence with international standards in order to achieve the necessary homogenisation between international accounting standards and our accounting system in the area of transactions between group companies. In November 2020, the IASB published a Discussion Paper (reference DP/2020/2) setting out initial proposals on the accounting treatment of intercompany transactions under common control, with a comment due date of 1 September 2021. The Institute will contribute its views to this paper, and will coordinate with the working group, which will take into account the above-mentioned IASB paper.

II.3 QUERIES

Queries on the accounting treatment of specific situations are analysed and resolved by making interpretations of the standards contained in the financial reporting framework.

The evolution of queries in recent years has been as follows:

QUERIES	2020	2019	2018
Issued queries	309	384	318
Published queries	12	14	19

With regard to the matters covered by the queries, the effects of the COVID-19 pandemic have had an impact on the field of accounting, since accounting is a discipline whose ultimate aim is to provide a true reflection of the economic and financial reality of the reporting entity, and since the pandemic has had a major impact on the economy.

Thus, queries related to COVID-19 of a twofold nature have been submitted to this Institute. Firstly, on the accounting interpretation of the standards that have been issued in the context of the pandemic and, secondly, on the application of the financial reporting framework in such an exceptional situation.

Queries considered to be of general interest are published in the Institute's quarterly Official Gazette. In particular, the following queries have been published in 2020:

- Query 1 of BOICAC No. 121, March 2020: On the application of the amortised cost criterion and the classification between current and non-current of a loan obtained from a financial institution.
- Query 2 of BOICAC No. 121, March 2020: On the possibility of capitalisation of financial expenses by a company managing annuities.
- Query 3 of BOICAC No. 121, March 2020: On whether adjustments should be made at the close of the year ended 31 December 2019, in application of the provisions of Recognition and Measurement Standard 23 (Events after the Reporting Period) of the Spanish General Accounting Plan, due to the consequences of the enactment of Royal Decree 463/2020 of 14 March, declaring a state of alarm for the management of the health crisis situation caused by COVID-19, as well as the possible non-application of the going concern principle.
- Query 4 of BOICAC No. 121, March 2020: On the accounting treatment of the distribution of a dividend between group companies after successive exchanges of securities.
- Query 1 of BOICAC No. 122, June 2020: On the appropriate accounting treatment of the decisions adopted by Royal Decree-Law 8/2020 of 17 March, on extraordinary urgent measures to address the economic and social impact of COVID-19, in relation to the costs to be assumed by companies in temporary redundancy plans. Specifically, it asks whether the measures approved by the government are in the nature of subsidies and, if so, which items can be considered as such.
- Query 2 of BOICAC No. 122, June 2020: On the accounting treatment of the financial contribution received by a distribution company from its supplier to cover part of its marketing and advertising costs.
- Query 3 of BOICAC No. 122, June 2020: On the calculation of turnover when public subsidies are received.
- Query 1 of BOICAC No. 123, September 2020: On the accounting by the shareholder of the appropriation of the result.
- Query 2 of BOICAC No. 123, September 2020: On the accounting treatment of various issues related to the partial division of a public limited company by spinning off a branch of activity constituting a business, the beneficiary company being newly created and wholly dependent on the company being spun off.

- Query 3 of BOICAC No. 123, September 2020: on the non-monetary contribution to a group company domiciled in Spain, of shares giving control over another group company, which constitutes a business, when the contributing company and the subsidiary, whose shares are the object of the contribution, apply International Financial Reporting Standards (IFRS) and are based abroad.
- Query 1 of BOICAC No. 124, December 2020: On the determination of the average number of workers in companies that have adopted Temporary Redundancy Programmes because of COVID-19.
- Query 2 of BOICAC No. 124, December 2020: Purchase of computers to be donated to a non-profit organisation.
- Query 3 of BOICAC No. 124, December 2020: On the accounting treatment of a guarantee given by a shareholder to secure a lease contract entered into by the company.

II.4 INTERNATIONAL ACTIVITY

In the field of accounting regulation, international activity is fundamental for the ICAC, given the strategy of convergence of Spanish accounting law with the international accounting standards adopted by the European Union (EU-IFRS), and also taking into account the direct application of these EU-IFRS for the preparation of the consolidated accounts of Spanish listed groups, in application of Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

It is worth highlighting the Institute's commitment to having an even more active presence in EFRAG (European Financial Reporting Advisory Group), so that our country can contribute more directly to the development and promotion of European opinions in the field of economic and financial reporting, so that these assessments are properly considered by the IASB (International Accounting Standards Board) from the outset, in the process of drawing up international financial reporting standards.

It is also worth mentioning the relevant participation in the meetings of the Accounting Regulatory Committee (ARC), chaired by the European Commission.

The ICAC also participates in various international financial reporting forums, in particular in meetings organised by the IFASS (International Forum of Accounting Standard Setters), the annual conference of global accounting regulators (WSS) organised by the IASB, as well as conferences organised by ISAR-UNTACD (International Standards of Accounting and Reporting), which is part of the UN.

The following sections include the highlights of the ICAC's activity in the international arena.

EFRAG

EFRAG, established in 2001, provides input into the process of developing international accounting standards and provides the EU with expert technical advice on accounting matters. There are two ways in which EFRAG cooperates with the EU in developing financial reporting stan-

dards. For one, it brings the European perspective to the IASB at various stages of the process of developing and revising its standards. In addition, it provides advice to the EU in the process of adopting the IASB's standards and interpretation through the EU Regulation. Overall, the aim is for the EU to speak with a single voice on financial reporting.

EFRAG's main responsibility is precisely to convey these views convincingly, clearly and consistently, after listening to all interested parties, taking into account the specific circumstances of European origin, thus participating in the accounting standard-setting process conducted by the IASB, with the legitimacy of representing the European voice.

EFRAG, in addition to carrying out proactive research activities to promote the search for solutions at international level to European accounting concerns, has the task of providing advice to the Commission on the adoption of standards issued by the IASB, including the assessment of whether they pursue the European public good, i.e. assessing not only technical aspects, but also whether the new accounting standard has effects in terms of stability, economic development and competitiveness.

The strategy of accounting convergence towards these standards followed in Spain at local level, based on a critical analysis of European regulations, enables this task to be tackled with solvency and contributes to enriching the debate on the new pronouncements to be adopted at international level.

In this regard, the ICAC is a member of EFRAG's General Assembly, which is competent to appoint EFRAG's Chairman, Vice-Chairman and Board members. The Chairman of the Board is appointed by the European Commission after having heard the Council of the European Union and the European Parliament. The General Assembly is also competent to approve the financial statements and budget for the coming year, for the appointment of the members of the European Lab Steering Group (set up by mandate of the Commission with the objective of stimulating innovations in the field of corporate reporting in Europe by identifying and sharing best practices), and to exercise general oversight over the Board, respecting the Board's sole responsibility for positions taken on all financial reporting matters and over the European Lab Steering Group.

The ICAC has a voting seat on the EFRAG Board, which is competent to approve EFRAG's audited financial statements, annual budget, Statutes and Internal Rules. It is responsible for all opinions expressed and positions adopted in IFRS analysis and advice to the European Commission, which are determined in a consensus decision-making process, with the objective of constituting and representing the European voice in financial reporting. The Board takes all its decisions after considering the expert advice provided by EFRAG's Technical Expert Group (TEG), having heard the Accounting Regulatory Committee (ARC) chaired by the European Commission, and having examined the broader economic perspective.

Given that the ICAC, as the national accounting regulator, sits on the EFRAG Board as a member with voice and vote for a renewable three-year term, it ensures that the Spanish accounting regulator's view of the needs of users of financial statements and the opinion of Spanish companies is taken into account in the process of drawing up and approving the aforementioned accounting standards, which will then be applied by European listed groups.

In addition, the ICAC participates in the four-monthly meetings held by EFRAG with the European national accounting regulators in the EFRAG's Consultative Forum of Standard Setters (CFSS). These meetings agree on the specific positions EFRAG will take when participating in the

meetings of the IASB's Accounting Standards Advisory Forum (ASAF) as a member representing the European accounting regulators. There were more meetings than usual this year due to the pandemic situation caused by COVID-19, where the different jurisdictions pooled their strategies to address the challenges related to the pandemic from a financial reporting perspective.

As a result of its international activity, the ICAC has participated and issued comment letters both on draft standards at various stages developed by the IASB and on the advisory reports issued by EFRAG in relation to the adoption of standards, interpretations or amendments issued by the IASB. Finally, it also participated in the discussion and vote in the ARC on the adoption in the European Union of the standards and interpretations issued by the IASB.

The more prominent projects and standards developed by the IASB requiring particular attention and resources included EFRAG's preparation of its mandatory advisory report to the Commission on IFRS 17 Insurance Contracts, endorsed by the IASB on 26 June 2019.

The ICAC took part in the EFRAG Board in drawing up the draft, and in the response to it in the public query phase in its capacity as the national accounting regulator, collaborating actively on this standard with the Directorate General of Insurance and Pension Funds.

Other relevant projects on which the ICAC has expressed its position, both vis-à-vis EFRAG and the IASB, include ED/2019/7 General Presentation and Disclosures which seeks to improve the presentation of financial information and its comparability, and DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment which seeks to improve the accounting for business combinations and goodwill arising therefrom, as regards the recording of impairment and disclosure of information in the notes to the financial statements.

Accounting Regulatory Committee.

The Accounting Regulatory Committee (ARC), chaired by the European Commission and comprising representatives of the EU Member States, decides on the adoption of IFRS on the basis of advice received from EFRAG.

The main issues discussed in 2020 were the EFRAG report on the accounting treatment of long-term investments mandated by the Commission, the analysis on the adoption of IFRS 17 Insurance Contracts, the adoption of the IBOR-Phase 2 reform and the public query on the revision of the Non-Financial Reporting Directive.

Further activities

- The spring face-to-face meeting of national accounting regulators organised by IFASS to be held in Washington was cancelled due to the COVID-19 pandemic, in which the ICAC had planned to participate by presenting the Spanish regulation on the going concern principle.
- Attendance at the autumn virtual meeting of the National accounting Standard Setters (NSS), organised by IFASS. The meeting heard views and experiences from different jurisdictions on projects such as the Main Financial Statements project on improving financial reporting, the EFRAG study on crypto-assets and their possible accounting treatment, the study on intangible assets and their growing importance in the new economy, the study on improving accounting information when the going concern principle ceases to apply and the impact

of COVID-19. It also participated in the international group on public accounting and the international group on not-for-profit accounting with an update of its activity since the last meeting.

- Attendance and participation in the annual meeting of the World Standard Setters (WSS) held by the IASB in London for accounting regulators. At these meetings, the IASB provided an extensive update on the draft standards it is working on. In particular, the impact of COVID-19 on IFRS was discussed, together with issues such as improved communication in financial reporting through the Primary Financial Statements project, progress on the accounting treatment of business combinations, including its most controversial element, goodwill, the project on Financial Instruments with Characteristics of Equity which may help to resolve current difficulties in classifying certain financial assets, and an update of the IFRS taxonomy.
- Collaboration with the IASB and EFRAG through the issuance of reports and comment letters on proposed accounting standards and interpretations of the IASB and the Interpretations Committee and EFRAG's comments thereon.
- Attendance and participation in meetings of the working group of expert accountants (ISAR) within UNCTAD (UN).

The issues addressed have been mainly in the area of non-financial reporting. First, the issue of core indicators for reporting by entities on their contribution to the achievement of the Sustainable Development Goals was discussed, as the private sector plays a key role in the implementation of the 2030 Agenda for Sustainable Development and to enrich its contribution to the achievement of the Sustainable Development Goals it is important to have the means to assess its contributions in a consistent manner. Secondly, climate-related financial reporting was discussed, as the increase in climate events and disasters requires an adequate response that takes into account different perspectives, including how companies provide stakeholders with data on activities aimed at mitigating the effects of climate change and the associated risks. While there is growing recognition of the importance of improving climate-related financial reporting, a significant implementation gap exists in this area and practical guidance is needed.

- Participation in bilateral meetings with both the Commission and other European accounting regulators.

II.5 ACCOUNTING BOARD AND ACCOUNTING ADVISORY COMMITTEE

The Accounting Advisory Committee is established to advise the Accounting Board, which also met twice during 2020. This Committee will comprise accounting experts of renowned repute in relation to economic and financial reporting, representing both public administrations and the different sectors involved in the preparation, use and dissemination of such information.

The regulatory and interpretative proposals on which the Accounting Board has ruled during 2020 included:

- A preliminary draft of a Bank of Spain Circular amending Circular 4/2017 of 27 November to credit institutions on public and confidential financial reporting standards and financial statement formats.

- A draft of a Bank of Spain Circular to payment institutions and electronic money institutions on public and confidential financial reporting standards and model financial statements, and amending Circular 6/2021 of 29 October on holders of currency exchange establishments and Circular 4/2017 of 27 November to credit institutions on public and confidential financial reporting standards and financial statement formats.
- Presentation and discussion of a query on the interpretation to be followed in accounting for dividend distributions to the shareholder in different scenarios.

II.6 NON-FINANCIAL REPORTING

Non-financial reporting is regulated by Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU at an international level and by Law 11/2018 of 28 December 2018 in Spain

In February 2020, the European Commission launched the public query “Public consultation on the revision of the non-financial reporting directive” in which it sought feedback from different profiles within member states (regulators, users of the information, preparers, auditors, etc.) on the current level of satisfaction with the existing non-financial reporting rules at European level. In particular, questions were asked on issues such as the quality, structure and scope of the information to be disclosed, standardisation, the scope of application of the Directive, the application of the principle of materiality or verification, among others.

The ICAC was one of the Spanish bodies participating in this public consultation, expressing its opinion on those aspects that could be improved.

Following this query, the Commission has made a commitment to review the Non-Financial Reporting Directive as part of the European Green Deal and its 2020 Work Programme.

In this area, the ICAC has also responded to EFRAG’s invitations to comment on the key elements to be taken into account by EFRAG, which has to prepare a proposal mandated by the Commission as a possible regulator for non-financial reporting in the European Union. The ICAC also responded to the IASB’s public consultation paper on disclosure and sustainability in order to identify stakeholder interest in sustainable reporting and to understand what the IFRS Foundation could do in response to that interest.

A number of queries on the interpretation of the application of the Spanish non-financial reporting legislation were also answered in 2020.

II.7 COOPERATION WITH OTHER AGENCIES AND INSTITUTIONS

The ICAC’s financial reporting activity includes engagements with a wide range of agencies and institutions, including the following during 2020:

- a) Preparation of mandatory reports on the standards drawn up by other bodies of the Public Administration or other Public Institutions. More specifically, the informed requests were as follows:

MANDATORY REPORTS	2020	2019
Informed requests	210	293

- b) Revision of the translations of several International Financial Reporting Standards issued by the IASB and adopted by the European Union through the Accounting Regulatory Committee for publication in the Official Journal of the European Union, a task carried out by the Translation Committee set up for this purpose.
- c) Collaboration with the Bank of Spain's Central Balance Sheet Data Office in the review and, where appropriate, modification of the models for filing individual and consolidated financial statements with the Companies Registries, with a view to simplifying understanding of their content, comparability and speedy processing, storage and publication by the Companies Registry, approved by the Ministry of Justice accordingly.
- d) Collaboration with the Directorate General of Insurance and Pension Funds in the analysis of IFRS 17 Insurance Contracts to decide the Spanish position in the debate on the draft advice for adoption by EFRAG and its future approval by EFRAG and subsequent adoption by the ARC.
- e) Collaboration and assistance in accounting matters at meetings at the National Sports Council (Consejo Superior de Deportes) within the Joint Commission for the transformation of sports clubs into corporations.
- f) Collaboration with the XBRL Spain association, through the appointment of a member of this Sub-Directorate as Chairman of the PGC2007 and PGCPYMES2007 Taxonomy Sub-Group and as Chairman of the Taxonomy Sub-Group of the Standards for the formulation of consolidated financial statements, participating in meetings related to this matter.
- g) In addition, there has been ongoing collaboration with the General State Administration Comptroller's Office and the Directorate General for Taxation in relation to the queries formulated on the accounting treatment of specific situations.

III AUDIT AREA

III.1 INTRODUCTION

Auditing is an essential element of the market economy system, contributing to the transparency and reliability of the economic and financial reporting of audited companies.

The ICAC's public oversight of the activity contributes to compliance with the standards governing the activity through monitoring and disciplinary activity, which reinforces confidence in the activity.

One of the key elements of the Institute's audit activity in 2020 included an increase in oversight activities and also the completion of the drafting of the Audit Act's implementing regulations. The ICAC has also continued to perform all its functions as Spain's audit supervisor and participate in the international cooperation mechanisms of this supervision.

III.2 THE SPANISH AUDIT SECTOR

Official Registry of Auditors: Registered auditors

Natural and legal persons seeking to audit accounts in Spain must meet the conditions established in the auditing regulations and be registered in the Official Registry of Auditors.

The registry is public and its information is accessible by electronic means. In particular, it can be accessed via the ICAC website at the following address: <https://www.icac.gob.es/servicios-roac>.

A number of these registered auditors practise as independent auditors while others do so through audit firms, i.e. they are either practising partners or are expressly appointed by the audit firms. Specifically, according to the Official Registry of Auditors, in 2020, 2,142 auditors will be working in their individual capacity and 2,801 will be working on behalf of audit firms as practising partners or as auditors appointed by them to sign reports on their behalf. In addition, 1,023 auditors are both self-employed practising auditors and partners or appointed auditors of audit firms. The number of companies registered in the Official Registry of Auditors was 1,416.

These data are very similar to the period from 1 October of the previous year to 30 September 2019, as can be seen in the annual report "Situation of auditing in Spain" published periodically on the ICAC website. According to the "Situation of Auditing in Spain 2019" report, there were 3,939 practising auditors, of whom 2,152 are individual auditors and 2,862 are auditors in a corporate form (1,040 auditors are both self-employed auditors and partners or appointed auditors of audit firms). The number of companies registered in the Official Registry of Auditors was 1,411.

Registered auditors must submit to the ICAC, in October, each year, an annual statement of activities for the previous twelve months¹.

The Official Registry of Auditors carried out the following procedures over the last two years:

Official Registry of Auditors

ROAC	2020	2019
Annual declarations of activities	3,083	3,207
Changes in auditors and companies (*)	755	989
Auditors registered	191	51
Auditors deregistered	54	62
Companies registered	33	32
Companies deregistered	35	29
Certificates issued	481	597

Practising auditors and audit firms reported a total of 63,606 audit assignments to the ICAC in 2020, with the following breakdown by type of entity:

¹ Forms 02 and 03, whose electronic filing is regulated by the ICAC Chairman Resolution of 19 December 2012 (amended by Resolutions of 25 July 2014, October 2016 and 29 September 2017)

AUDIT ENGAGEMENTS	2020	2019
Credit institutions	201	201
Insurance companies	348	342
Banking foundations, payment institutions and e-money institutions	73	73
Investment services companies, collective investment undertakings and management companies	4,838	4,838
Pension funds and their management companies	1,264	1,264
Other entities not listed above	56,882	56,756

Calls for admission to the Official Registry of Auditors (exams)

The conditions for admission to the Official Registry of Auditors, and therefore legal access to the practice of auditing, are set out in articles 8, 9 and 10 of the Audit Act 22/2015 of 20 July and in Chapter II of Royal Decree 2/2021 of 12 January, which approved the implementing regulations thereof.

The Registry of Statutory Auditors admission exams are held in two stages:

- First stage. Theoretical exam: This exam is intended to ascertain the level of theoretical knowledge attained with regard to the subjects considered necessary to practise as a statutory auditor.

Anyone who passes or is exempted from this stage will be eligible to take part in the second stage.

- Second stage. Practical exam: This stage of the exam verifies the ability of candidates to apply theoretical knowledge to the practice of auditing. The exam usually consists of the resolution of one or more practical cases.

The professional aptitude exam is therefore aimed at rigorously testing the candidate's suitability for the year in which he/she is to carry out the statutory audit. Anyone who passes this professional aptitude examination shall be entitled to apply for registration in the Official Registry of Auditors, provided that they fulfil the conditions to do so, though they may also apply for registration in the public law corporations representing statutory auditors, in accordance with their own statutes.

The last joint call of the Institute of Chartered Accountants of Spain and the General Council of Economists of Spain for the professional aptitude examination for the authorisation of the ICAC and registration in the Registry of Statutory Auditors was made by Order ECE/753/2019 of 1 July, published in the Official State Gazette on 11 July 2019, having finished the exams in 2020. There were 190 eligible participants.

III.3 AUDIT REGULATION

The ICAC carried out the following actions to regulate the audit activity in 2020:

In 2020, the Draft Regulations of the Audit Act remained a work in progress by virtue of the authorisation under the eight final provision of that Act thereof.

The objectives of this regulatory development seek not only to lay down the necessary standards for the implementation of the Audit Act, thereby complying with the legal authorisation contained in the eighth final provision of the Act, but also to specify the scope and specific meaning of certain issues, as well as to improve the clarity of the text by means of drafting improvements and to include certain technical improvements recommended by accumulated experience. The aim is to achieve greater legal certainty in the application of the regulations governing the audit activity.

The mandatory opinion of the Council of State was issued on 4 December. In this opinion, the Council of State assessed the draft Regulation very favourably, recognising that its processing by the ICAC has also been praised by the Corporations, as the vast majority of the observations made have been accepted, and the rejection of those not accepted has been adequately justified, thus adopting a broadly endorsed version.

The Regulations implementing the Audit Act were finally approved by Royal Decree 2/2021 of 12 January, and published in the Official State Gazette on 30 January 2021.

In addition to the foregoing, regulatory work continued throughout 2020 with regard to the standards governing auditing, including:

- The revision and adaptation of the international standards on auditing ISA 540 and ISA 720 (revised) for their application in Spain as technical auditing standards, NIAES 540 and 720 (revised) respectively.

This process was addressed together with the professional associations representing auditors in a joint working group. In 2020, the Resolution of 30 June 2020 was issued on the provisional publication of these standards for the public information process, and the Resolution of 27 October 2020 on the definitive publication of these standards.

The incorporation of the International Standard on Auditing ISA 540 (revised) “Auditing Accounting Estimates and Related Disclosures” into national legislation, for publication and application in Spain, followed the revision and amendment of this standard by the International Auditing and Assurance Standards Board (IAASB).

International Standard on Auditing ISA 720 (revised) was incorporated in accordance with the amendment of article 35 of the Audit Act, introduced by Law 11/2018, of 28 December, which regulates the auditor’s performance of the financial statements in various entities and with respect to certain information (statement of non-financial information and other information on listed companies).

- Also published in 2020, the Technical Auditing Standard (hereinafter, TAS) on the preparation of the supplementary report to the audit report on the financial statements of credit institutions and financial credit institution. This standard was jointly prepared by the professional associations representing auditors and the Bank of Spain under the supervision of the ICAC, and aims to adapt to the new regulatory framework and to improve, as far as possible, the information provided to the Bank of Spain. This standard was published in its public information procedure by Resolution of 1 July 2020, and in its definitive form, by Resolution of 27 October 2020.

Work also began in 2020 on the preparation of a TAS on the auditor’s responsibilities in relation to financial statements presented in the European Single Electronic Format (ESEF), together with

the amendment to ISA-ES 700 (revised) to bring the auditor's report format in line with the content of this TAS.

The endorsement of this TAS and the amendment to ISA-ES 700 Revised originates from the article of Directive 2004/109/EC of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, as amended by Directive 2013/50/EU of 22 October 2013. This Article provides that, as from 1 January 2020, all annual financial reports of these entities shall be prepared in a single electronic format for reporting such information. In this regard, auditors must issue an opinion on compliance with the ESEF requirements, as interpreted by the European Commission and reflected in the CEAOB guidelines adopted in November 2019. This opinion should be included in the section on other legal and regulatory requirements, separate from the opinion on the audit of the financial statements, resulting in an amendment to ISA-ES 700 Revised.

At the end of the year, these standards had been provisionally published for public information by Resolution of 27 October 2020.

At the date of publication of this report, the ESEF Auditing Technical Standard and the amendment to ISA-ES 700 Revised have been published, following completion of the public information process, by Resolution of 9 February 2021.

In December 2020, the European Parliament and the Council agreed to amend the Transparency Directive to give Member States the option to allow issuers to apply the ESEF requirements from 1 January 2022, as a supplementary measure to help in the recovery from the pandemic generated by COVID-19. Spain exercised this option, and the ICAC issued a communication on 12 February 2021 to indicate that the new Technical Auditing Standard will be mandatory for audit reports issued on financial statements for fiscal years beginning on or after 1 January 2020, if the financial statements of the audited entity are presented in accordance with the ESEF format on a voluntary basis by the issuers, and that it will generally be mandatory for audit reports issued on financial statements for years beginning on or after 1 January 2021.

Further regulatory engagements

In the regulatory area, the audit area collaborated with other government bodies by preparing reports on draft regulations that affect or may affect the audit activity. There were 30 reports on policy proposals or drafts in 2020.

In relation to the reports on draft regulations, the reports issued in relation to the Draft Royal Decree approving the Regulations implementing the Audit Act are included.

In 2020, the ICAC submitted comments to the Technical Cabinet of the General Secretariat of the Treasury and International Finance on the European Commission's proposal for the Digital Operational Resilience Act (DORA), which also includes the amendment of numerous Directives, including the Audit Directive, in those aspects that affect statutory auditors and the ICAC's oversight functions. Comments submitted by the professional associations representing auditors were also forwarded and a joint meeting was held with them, attended by the Technical Cabinet with a view to exchanging information.

The ICAC has also continued its review of certain auditing standards, in particular:

- Revision of the translation of ISA 540 (Revised) “Auditing Accounting Estimates and Related Disclosures”. The revision of the translation of this International Standard, which had begun the previous year, finished in 2020.
- Review of the draft of the new revised International Standard on Auditing (ISA) 600 “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” issued by the IAASB for query, with a view to issuing comment letters to be sent jointly with other competent authorities in other EU Member States (CEAOB sub-group on standards) or countries participating in international fora (IFIAR Standards Coordination Working Group).

The summary of the actions described in the previous paragraphs is shown graphically below:

REGULATORY ACTIVITIES IN AUDITINGS	2020	2019
Draft Regulatory Reports	30	15
Technical Auditing Standards issued (interim and final)	8	0
Review of draft standards submitted by IAASB	1	3
Revision of the translation for possible further adaptation of (ISA) NIAS-ES	1	1

Auditor training. Access

The ICAC is responsible for the approval of the theoretical educational programmes required for access to the Official Registry of Auditors, the recognition of the teaching centres that provide them and the exemption from the theoretical educational programmes and the first stage of the Official Registry of Auditors access exam.

There were forty (40) resolved applicants for approval of theoretical educational programmes for access to the Official Registry of Auditors in 2020, broken down as follows:

- Thirty (30) official qualifications valid throughout Spain (Official University Master’s Degrees), thereby waiving the first part of the Official Registry of Auditors admissions exam.
- Nine (9) University degrees, which are approved as theoretical educational programmes for access to the Official Registry of Auditors.
- One (1) theoretical educational programme for access to the Official Registry of Auditors, which was accredited to one of the professional associations representing auditors.

As part of this same engagement, official bachelor’s degrees submitted for consideration by the universities themselves have been assessed for the purpose of granting them a generic exemption from certain theoretical subjects already passed to secure the degrees, together with individual applications for exemption regarding official degrees, broken down as follows:

- 3 partial generic exemptions for bachelor’s degrees at the request of a university.
- 12 specific exemptions for official qualifications on individual request.

Continuing education

Pursuant to article 8.7 of the Audit Act, auditors must carry out continuing education activities and justify their compliance to the Audit Act. For the purposes of this obligation, such activities must be provided by recognised centres or be individually approved, in accordance with the provisions of the Resolution of 29 October 2012, which lays down different aspects related to the obligation to carry out continuing education by auditors registered in the Official Registry of Auditors as practising or non-practising auditors who provide services on behalf of others.

In the year, the ICAC is responsible for recognising the centres authorised to provide continuing education activities, as well as the activities to be carried out by certain entities or centres, in accordance with the conditions set out in the aforementioned Resolution.

In the scope of the promotion of the required continuing education, 112 activities were approved, imparted by 8 different professional institutions or associations and public centres or institutions, in accordance with the conditions contained in article 23 of the Resolution of 29 October 2012, which are computable for the purposes of the continuing education of auditors.

In addition to these centres, it should be noted that the professional associations representing auditors are recognised centres, as provided for in article 8 of the Audit Act, without the need for prior recognition by the ICAC.

The increase in the number of approved training activities (in the previous year there were 73 given by 5 institutions) can be explained by the increase in the number of “Webinar” training activities during the pandemic, a novel format with a high level of participation.

Similarly, 6 requests for partial exemption from the obligation to carry out continuing education due to force majeure were processed and resolved.

III.4 ACTIVITY CONTROL: INVESTIGATIONS AND INSPECTIONS

The Audit Act gives the ICAC responsibility for the system of public oversight over auditors. This system of public oversight includes two types of engagement that constitute the ICAC’s main mechanisms for the supervision of auditors’ operational activity: inspections and investigations.

Inspections consist of checks aimed at the periodic review of the auditors’ system of internal quality control and the review of selected audit work to assess the effectiveness of those systems. Inspections are ordered by the principles of generality and periodicity, are preventive in nature, are carried out on the basis of a risk analysis, and In the case of auditors who audit Public Interest Entities² (PIEs), the regulations establish (depending on the size of the audited companies) a minimum frequency of inspections of 3 or 6 years. The result of the inspections is documented in a report containing the main conclusions under quality control and formulated improvement requirements.

Investigations entail the verification of certain auditing engagements or aspects of the auditing activity, the purpose of which is to determine facts or circumstances that could lead to the existence of indications of possible breaches of the regulations governing the auditing activity.

² The companies listed in Article 15 of the now repealed Royal Decree 1517/2011 (former regulations of the Audit Act) were PIEs. They are Currently defined in Article 8.1 of the current regulations of the Audit Act.

Investigation engagements include examining audit working files or other documentation in the possession of the auditor under investigation, making enquiries, and obtaining and evaluating any other relevant information or documentation to verify that the auditor's engagement has been conducted in accordance with applicable standards.

The special prevalence and interest required by the audit work of public interest entities –due to their greater relevance and economic and financial impact– justifies greater specialisation, attention and dedication on the part of the supervisor, and requires the latter to organise and make efficient and effective use of the available resources to ensure adequate compliance.

Engagements in 2020 were planned in line with such criteria, with the main part of the available resources being prioritised for the engagement of auditors auditing public interest entities.

The rationale for this concentration of efforts lies in their greater economic relevance, public interest significance and, in particular, in ensuring better protection of users and investors, which will consequently benefit the proper functioning of the markets.

The ICAC has engaged both directly and with the assistance of the auditors' representative bodies. Firstly, in accordance with the criterion of prioritising checks on auditors who audit public interest entities, inspections and investigations of this type of auditors were carried out directly by the ICAC. Secondly, the audit engagements relating to the investigation of compliance with the obligation of continuous training, those relating to the verification of the formal obligations of transparency reports and those relating to part of the inspections and investigations of auditors who do not audit entities of public interest were carried out with the assistance of the auditors' representative bodies, under the direction and supervision of public employees of the ICAC.

Overall, the most remarkable aspect of the inspections and investigations carried out in 2020 is the intense effort made, which has led to a **significant increase in the number of inspections and investigations conducted in 2020, even in the complex context of the pandemic situation**, as described in the table below:

	ENGAGEMENTS		Variation 2019/2020
	2020	2019	
Inspections	5	2	+ 150%
Investigations	237	181	+31%
TOTAL	242	183	

The following are some of the measures implemented to improve the level of activity:

- **Optimisation of the planning** of inspection and investigation engagements, through the implementation of multi-year plans and the use of new metrics for the performance of engagements, which makes it possible to anticipate engagements sufficiently in advance, level the workload of the teams and reduce unnecessary burdens on supervised auditors.
- Use of **IT tools** that have enabled monitoring activities during the lockdown and improvements in productivity.

- **Review and optimisation of internal processes and procedures.** This measure includes various actions such as, for example, the streamlining of procedures with auditors through the use of electronic notifications in procedures; the reduction in the use of diligences; or new developments in the preparation of the reports in which the inspection engagements are materialised. In this regard, reports were modified so that, in the case of the existence of deficiencies, two types of responses are formulated: requirements for improvement and recommendations for improvement. Improvement requirements are made when deficiencies are found that constitute relevant breaches of the applicable quality standards. When the deficiencies detected are of a non-material nature or are not widespread, recommendations for improvement are made.

This amendment makes it possible to strengthen the preventive nature of inspections by streamlining monitoring activities.

- Development of **risk-based oversight** and use of data analytics tools. In 2020, work began to implement a risk-based oversight area that will improve the productivity, efficiency and preventive nature of supervision. Risk-based oversight allows, first, the most objective analysis possible of the supervised institutions and, second, the allocation of resources to the supervised institutions that most require it, depending on their potential and actual risks assumed, all with the aim of optimising oversight. The analysis of both control risks and inherent risk, by assessing the firms' own risk and that of the audited entities, enables a risk map to be drawn up that will focus supervisory attention.

Inspections

For a proper analysis of the inspection activities carried out by the ICAC in 2020, it is useful to distinguish between:

- Engagements (inspections and investigations) carried out on auditors auditing public interest entities.
- Engagements (inspections and investigations) carried out on auditors whose customers are not public interest companies.

As regards auditors auditing public interest entities, two inspections of two large audit firms and one medium-sized audit firm were completed³ in 2020. These three inspections were in line with the ICAC's control plan for 2020. Auditors of public interest entities, because of the importance of the companies they audit, have a higher supervisory risk. They are therefore subject to more stringent requirements than auditors who do not audit public interest entities, and are a priority target of oversight, with more thorough inspections being carried out on them.

As regards auditors who do not audit public interest entities, two inspections were made in 2020. The ICAC's engagement plan for 2020 contemplated, with the assistance of the auditors' representative bodies, inspections of audit firms and auditors who do not audit public interest

³ The inspections conclude with the final inspection report, issued after having assessed the arguments of the auditors and audit firms to the provisional report, previously issued, in accordance with art. 76 of Royal Decree 1517/2011 of 31 October, which approved the regulations implementing the revised text of the Audit Act, approved by Royal Legislative Decree 1/2011 of 1 July.

entities. To this end, agreements were signed in November 2019, with the General Council of Economists of Spain and the Institute of Chartered Accountants of Spain for assistance, under the direction and supervision of the ICAC. Of the six inspections covered by the 2020 control plan, only 2 inspections were completed, due to delays caused by the State of Alarm and the pandemic context. By the end of 2020, all of them were well advanced, and were completed in the first months of 2021.

This breakdown of the inspections carried out in 2020 according to the type of auditor inspected and the year-on-year variation is described in the following table:

	INSPECTIONS				TOTAL		
	On auditors auditing public interest entities		On auditors NO auditing public interest entities		2020	2019	Variation 2019/2020
	2020	2019	2020	2019			
Inspections	3	2	2	-	5	2	+150%

The scope of the inspections completed in 2020 consisted of the review of the relevant internal quality control systems. In the inspections of the auditors of public interest entities, all elements of the quality control system were reviewed. In the inspections of auditors who do not audit public interest entities, the five most relevant elements of the six elements of the quality control system were reviewed, as well as the working papers of certain areas corresponding to specific audit assignments.

The scope of all inspections carried out in 2020 on all types of auditors (both auditors auditing public interest entities and non-auditors) included 13 audit assignments, of which 10 were public interest entities, representing 77% of the total. The remaining 3 assignments were from entities outside the public interest, as described in the table below:

	TOTAL INSPECTED ASSIGNMENTS		
	2020	2019	VARIATION 2019/2020
PIE assignments	10	6	+67%
Non-PIE assignments	3	1	+200%
TOTAL	13	7	+86%

The following sections summarise the outcome of inspections completed in 2020, distinguishing between inspections carried out on auditors who audit public interest entities and inspections carried out on auditors who do not audit public interest entities. Under this classification, detail the main issues that have come to light in the inspections, both on the firm's policies and procedures and on the audit work.

INSPECTIONS CONDUCTED ON PIE AUDITORS

Inspection of quality control policies and procedures

The inspection procedures have resulted in the following number of requirements for improvement⁴ on the following elements of the quality control system:

QUALITY CONTROL SYSTEM ELEMENTS	Improvement requirements
i. Quality leadership responsibilities.	3
ii. Acceptance and continuity of customer relationships and specific assignments.	9
iii. Applicable ethics and independence requirements.	16
iv. Human resources.	6
v. Performance of assignments.	11
vi. Quality control system tracking.	9

The above table shows that the Ethics and Independence element concentrates 16 requirements out of a total of 54 (almost 30% of the total number of requirements formulated), followed by the Commissioning element with 11 requirements (approximately 20% of the total number of requirements).

The main aspects of these improvement requirements are highlighted below:

i. Quality leadership responsibilities

This element of the internal quality control system includes the establishment of policies and procedures for:

- Promoting an internal culture, where quality in the execution of assignments is recognised as essential.
- Assigning responsibilities for the operation of the quality control system on the basis of the necessary expertise, capability and authority.

In the Quality Leadership Responsibilities element, the main improvement requirements identified for PIE auditor inspections relate to the following aspects:

- Lack of segregation of duties for the proper execution of quality control system tracking functions.
- The person ultimately responsible for the quality control system must be a practising auditor registered with the Registry of Statutory Auditors, and this responsibility cannot rest with the general meeting of partners or the board of directors of the firms.

⁴ In relation to the firm's policies and procedures, a significant deficiency is considered to exist when the implementation of the policies, procedures, tools or internal controls established by the audit firms is not appropriate to reasonably ensure compliance with the applicable requirements contained in the regulations governing the auditing of accounts, in accordance with the provisions of the Internal Quality Control Standard for auditors and audit firms published by the ICAC Resolution of 26 October 2011.

- Lack of sufficient detail in transparency reports on policies concerning the rotation of staff other than audit partners.
- In the transparency report to be published annually, significant omissions of information on the policies establishing the basis for members' remuneration and its relation to the achievement of quality objectives.
- Failure to clearly reflect amounts classified by category of services rendered in the turnover information.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including the fact that the transparency report does not contain sufficiently detailed information in some of its sections.

ii. Acceptance and continuity of customer relationships and specific assignments.

This element is intended to implement policies and procedures to obtain reasonable assurance that only audit customer relationships are initiated or continued with audit customers and audit assignments for which the auditor:

- Has the competence and capacity to carry out the assignment, including the resources and time necessary to do so (absence of professional risk);
- Can comply with applicable ethics requirements, including independence requirements (absence of ethics and independence risk);
- Considers the integrity of the customer and does not have information that would lead it to conclude that the customer lacks integrity (absence of customer risk).

In other words, it is a preventive control that should operate effectively prior to the signing of the audit assignment letter and the commencement of the audit work, and, where appropriate, at renewals.

In the Acceptance and continuity of customer relationships and specific assignments element, the main improvement requirements identified for PIE auditor inspections relate to the following aspects:

- Deficiencies in the of assessments and lack of controls to ensure that acceptance/continuation of assignments is approved prior to the signing of audit contracts and the commencement of fieldwork at the customer's premises.
- Failures in the process of grouping assignments and the need for further analysis of individual risks through the development of guidelines or guidance for risk assessment of group audit assignments.
- Lack of evidence of professional risk assessment in terms of audit team capabilities, availability and adequate capability of quality control reviewers.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including ones aimed at:

- Ensuring in all cases, both for new assignments and for renewals of audit assignments, that commercial factors do not undermine the necessary quality of work, ensuring the right balance between costs and fees.

- Providing a written record of the analysis substantiating the confirmations on the availability of the resources and time necessary to carry out the assignment.
- Forestalling the completion of the acceptance process after the assignment has been accepted.
- Documenting customer relationships in greater detail, as well as the judgements applied in setting risk ratings.

iii. Applicable ethics and independence requirements.

They are designed to implement policies and procedures to obtain reasonable assurance about whether the Audit Firm and its staff, as well as other persons and entities to which the requirements apply, maintain their independence by identifying and assessing threats to independence so that independence is appropriately safeguarded or, if not, audit assignments are not accepted or the audit report is not issued.

In the applicable Ethics and Independence Requirements element, the main improvement requirements identified for PIE auditor inspections relate to the following issues:

- Complete the adaptation of policies, processes, procedures, systems and tools to Spanish regulations, in particular in the determination of the scope of independence.
- Correctly updated identification, for the purposes of compliance with independence regulations, of all companies related to the audited company (*family trees*).
- The independence analysis in the working papers does not contain an estimate of the effect of the provision of services on the audited financial statements.
- Need to strengthen procedures and controls to ensure, in all cases, both the completion and documentation of all threat and safeguard analyses in the audit assignment working papers, and to ensure that assignment partners have the necessary involvement in the approval and follow-up of non-audit services.
- Lack of adequate tools, or failure to record in available tools, financial investments in or linked to audited entities.
- Deficiency or non-existent assessment of proposals for non-audit services.
- Deficiency in, or omission from, the working papers of non-audit services provided to the audited entities or their related parties.
- The need to incorporate requirements in the procedures to notify the audit committees of certain aspects not observed, such as, but not limited to, the request for authorisation for the provision of non-audit services, or the submission of the information and documentation necessary for the assessment by the audit committees of proposals for non-audit services.
- The need to adapt the perimeter of application of the independence regime to all staff required by the regulations and to the entire mandatory typology of instruments and transactions, captured in the internal control tools for financial interests.

- Insufficiently detailed independence policies and procedures relating to the process for the provision of non-audit services, in terms of the collection of information to be made available to the audit partner.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including:

- Preparation of annual confirmation letters as close as possible to the issuance of the audit report.
- Establishing procedures for informing the assignment partner of, and adequately documenting in the audit assignment working papers, the checks carried out by the firms on fee concentrations.
- Adequate drafting of local policies for non-audit services, to specify the inclusion of the auditee's parent company in the incompatibilities in cases of a control relationship.
- Strengthening procedures to adequately document that firms have analysed all the threats listed in article 15 of the Audit Act.
- In relation to the provision of fiscal services, document in detail the analysis of compliance with the requirements of the European regulations, which allow the conclusion of their admissibility.
- Completion of the declaration of independence of the partners who leave.
- Strengthen processes, procedures and control mechanisms that allow for proper compliance with reporting obligations and obtaining the relevant authorisations from the audit committees of the audited companies.

iv. Human resources

They are intended to provide reasonable assurance that audit firms have sufficient staff with the necessary competence, capability and commitment to ethical principles to carry out audit assignments in accordance with audit regulatory requirements, including remuneration policies.

In the Human Resources element, the main improvement requirements for PIE auditor inspections relate to the following aspects:

- Overall assessments, understood as the sum of the assessment of individual objectives and quality objectives, which are not explicitly stated in the firms' policies and procedures.
- Reinforce the necessary correlation between the results of performance evaluations and remuneration.
- Lack of specific policies and procedures, criteria for assessing the capacity of teams (resources and time available) and their allocation by technical and sectoral specialisation, categories and professional experience, depending on the complexity and risks of each audit assignment.
- Lack of policies and procedures for tracking workloads.

- Performance evaluation systems should specify the quality indicators, criteria for measuring them, and the effect of these indicators on the evaluation rating.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including:

- We recommend monitoring the workload of professionals below partner level.
- We recommend that hours incurred by staff in other functions, such as training hours, trainer hours and internal functions or committee attendance, be incorporated into the monitoring of staff workload.
- We recommend a detailed analysis of partners exceeding the parameters on indicative maximum hours of supervision set out in policies.
- We recommend establishing process improvements to enhance the objectivity and traceability of staff performance evaluations through the use of specific parameters and the proper documentation and control of all stages of the process.
- We recommend strengthening the link between quality and remuneration of professionals.

v. Performance of assignments

They are intended to provide reasonable assurance that audit assignments carried out by audit firms are performed in accordance with the legislation governing the audit activity. This element of the quality control system includes various aspects related to promoting consistency in the quality with which assignments are performed, oversight and review responsibilities in the audit teams, making the necessary queries and implementing the resulting conclusions, quality control review of public interest entity and other assignments based on risk criteria, documentation of the assignment, confidentiality, safe custody, integrity, accessibility and retrieval of audit assignment documentation, and retention of audit documentation.

In the Performance of Assignments element, the main improvement requirements for PIE auditor inspections relate to the following aspects:

- Formal incorporation into the policies and procedures of the firms, of estimated times to be spent on quality control reviews, and the establishment of controls over their effective enforcement.
- Lack of procedures to ensure that a quality control review process is carried out for all assignments that require one.
- Need to implement policies, procedures and tools in governance systems to mitigate potential conflicts of interest that may arise in reviews of superiors in the chain of command.
- Insufficient detail on the issues reviewed, discussed, and also the criteria and judgements supporting the conclusions of the QA reviews.
- Lack of justification for the adequacy of time spent on quality control reviews.

- Lack of information in training programmes on specific training for conducting quality control reviews.

It should be noted that, following previous inspections, it has come to light that certain firms have implemented procedures to avoid cross-checks.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including:

- We recommend the implementation of policies and procedures that establish a minimum number of hours of quality control review of individual and consolidated assignments, and also require the documentation of the basis for the assignment reviewer's conclusions.
- We suggest having a more in-depth control to ensure that all course recipients actually attend and also make better use of the courses.
- We recommend the design and implementation of a fully effective system in the policies to prove the review of the established documentation by the assignment's quality control partner-EQCR.

vi. Quality control system tracking

It is a post-implementation check of all other policies and procedures and the issuance of audit reports, intended to provide reasonable assurance that the quality control policies and procedures are relevant, adequate and operating effectively.

The person responsible for tracking the quality control system should be responsible for the ongoing evaluation of the quality control policies and procedures established by statutory auditors or audit firms, including the cyclical inspection of audit assignments, in order to assess the adequacy and relevance of their design and their operational effectiveness, as a post-hoc control of these policies and procedures.

In the Quality Control System Tracking element, the main improvement requirements for PIE auditor inspections relate to the following aspects:

- Need to increase cross-checking of responses regarding firm and staff turnover, and also quality control reviews.
- Establishment of criteria for the selection of monitoring reviewers.
- Establishment of appropriate measures to ensure the objectivity of the reviewers when the hierarchy and/or authority of the assignment partner, as well as other circumstances, may lead to conflicts of interest that threaten the objectivity of the monitoring reviewers.
- The tracking process requires the establishment of criteria for sizing and selecting samples relating to the quality control policies and procedures to be reviewed, and for reviewing the performance of audit assignments, relating to the selection of partners and assignments.
- Improved documentation of the tracking/monitoring process in terms of conclusions, even when they prove to be satisfactory.

- Establishment of assessment criteria to determine whether or not deficiencies identified in reviews of assignments constitute insufficient audit work or an inadequate audit report. Likewise, criteria and considerations made for not including in the annual tracking report part of the deficiencies identified, with regard to the assessment of the outcome of the review of quality control policies and procedures.
- A more thorough root cause analysis of deficiencies identified by tracking, so that root causes can be identified to draw up an appropriate action plan on the deficiencies.

In addition to the above, during the course of the inspections, incidents have been detected which are not of a generalised nature or are of a minor nature, but whose causes need to be analysed in order to establish the necessary control measures, including:

- We recommend documenting all the effort put into reviewing assignments.
- We recommend improvements to render conclusions, expressed in the annual tracking report, visible and traceable to the tracking work contained in the firms' tools.

Inspection of audit assignments

The scope of the inspections carried out on auditors auditing PIEs included 11 audit assignments, of which 10 actually related to public interest entities. The following table shows a comparison with the number of engagements carried out in the previous year:

	INSPECTED ASSIGNMENTS		
	2020	2019	VARIACION 2020/2019
PIE assignments	10 (91%)	6 (85%)	67%
Non-PIE assignments	1 (9%)	1 (15%)	-
TOTAL	11 (100%)	7 (100%)	57%

The improvement requirements contained in the inspection reports issued in 2020 do not necessarily result in a disciplinary proceeding, nor do they necessarily imply the commission of breaches of audit regulations⁵, notwithstanding the fact that, where appropriate, the corresponding disciplinary engagements may be initiated.

Nor do the requirements for improvement necessarily involve the disclosure of material misstatements in the audited financial information, since the purpose of the inspection is to assess the overall engagement of the auditors and audit firms.

The assignments inspected, classified by the sector in which the audited company operated, are broken down as follows:

⁵ In particular, it does not suspect the existence of a possible serious infringement for "non-compliance with auditing standards that could have a material effect on the outcome of its work and, consequently, on its report", as defined in Article 73(b) of the Audit Act.

SUBSECTOR	Number of public-interest entities	Number of NON-public-interest entities
Banks and savings banks	3	-
Insurance	2	-
Pharmaceuticals and Biotechnology	1	-
Construction	3	1
TOTAL	9 (*)	1

(*) Nine (9) PIEs and ten (10) assignments were included in the scope of inspections. The reason for this difference is that two assignments were inspected for 1 PIE: individual and consolidated financial statements.

Seven of the nine entities listed in the table are listed or are security issuers in Spain.

The distribution of improvement requirements made in the inspection of PIE audit assignments, broken down by technical subject matter of the audit, is as follows:

AUDIT ASPECTS	No. of requirements	% over total requirements
Substantive procedures	42	57.5%
Control tests	10	13.7%
Identifying and assessing the risks of material misstatement	16	21.9%
Assessment of the detected misstatements	1	1.4%
Audit strategy	2	2.7%
Sampling	1	1.4%
Accounting criteria	1	1.4%
TOTAL	73	100%

The recommendations made to the assignments inspected include, in terms of the number of times they have been made and their impact, the improvement requirements related to accounting estimates in the financial reporting of public interest entities. Notwithstanding the foregoing, it is also worth noting the following additional improvement requirements made in inspections of assignments of PIE entities:

- Requirements linked to inadequate assessments of the design of the control system, and deficiencies in the performance and/or documentation of the control testing.
- The need for audit procedures to respond appropriately to assessed risks of material misstatement of assertions, in terms of their nature, timing and extent.
- Need to appropriately justify the assessment of the risk of material misstatement made (including the likelihood of material misstatement occurring or obtaining evidence of whether

controls have operated effectively) and adopt appropriate audit responses accordingly, and ensuring that the audit evidence is more convincing when the risk assessment is higher.

- In relation to the sufficiency and appropriateness of audit evidence, improvement needs in general terms in the design and application of audit procedures.
- With regard to the use of entity-generated information as audit evidence, the need to adequately document that the auditor has assessed whether such information suffices not only in terms of reliability, accuracy and completeness, but also precision and detail.
- In the case of substantive procedures performed at an interim date, the need to adequately document that the remaining period has been covered by combining substantive procedures with tests of controls, or that it is sufficient to perform only additional substantive procedures, so as to provide a reasonable basis for extending the audit conclusions from the interim date to the end of the period.
- With respect to substantive procedures for each type of transaction, accounting balance and material disclosures, assurance about the appropriateness of the design of the tests and the adequacy of the procedures applied.
- Appropriate sizing and selection of sample elements.
- Adequate documentation of the audit procedures performed and audit evidence obtained to enable an experienced auditor who has had no previous contact with the audit to gain an understanding of the audit:
 - nature, timing and extent of the audit procedures performed to comply with ISAs and applicable legal and regulatory requirements
 - results of the audit procedures performed, and the audit evidence obtained
 - significant matters arising during the audit, conclusions reached thereon, and significant professional judgements made in reaching those conclusions
- Obtaining evidence regarding compliance with legal and regulatory requirements having a direct effect on the determination of material amounts and disclosures in the financial statements.

Recommendations for improvement have also been suggested for assignment reviews, albeit to a lesser extent than recommendations concerning a firm's internal quality control system.

INSPECTIONS CONDUCTED ON NON-PIE AUDITORS.

In terms of the type of auditors inspected, the second set of engagements carried out by the ICAC relates to auditors who do not audit public interest entities. The regulations applicable to such auditors take into consideration that the companies audited by such auditors do not have the same relevance as in the case of public interest entities. Therefore, the requirements for their internal quality control systems operate under the principle of proportionality. In 2020, two (2) inspections of this type of auditors were completed, and the summary of the results of these inspections is set out in the following sections.

Quality control policies and procedures

The inspection procedures have resulted in the following improvement requirements⁶ on the following elements of the quality control system:

QUALITY CONTROL SYSTEM ELEMENTS	Improvement requirements
i. Quality leadership responsibilities.	3
ii. Applicable ethics and independence requirements.	10
iii. Human resources.	0
iv. Performance of assignments.	9
v. Quality control system tracking.	9

The above table shows that over 30% of the improvement requirements can be attributed to the applicable Ethics and Independence Requirements element. Performance of Audit Assignments and Tracking elements each account for 29% of the requirements, while the Quality Leadership Responsibilities element accounts for less than 10% of the total. No significant improvement requirements were identified in the course of the inspections in relation to Human Resources issues that need to be addressed.

i. Quality leadership responsibilities

In the Quality Leadership Responsibilities element, the main improvement requirements identified for non-PIE auditor inspections relate to the following aspects:

- Lack of policy on the assignment of the necessary authority by the relevant body to persons with specific responsibilities.
- Inadequate segregation of duties for the proper execution of quality control system tracking functions.
- The person ultimately responsible for the quality control system is not a practising auditor registered with the Registry of Statutory Auditors.

ii. Applicable ethics and independence requirements

In the Applicable ethics and independence requirements, the main improvement requirements for inspections of auditors who do not audit PIE relate to the following aspects:

- Independence statement templates at the assignment level not updated with respect to the period of validity of the incompatibilities with the Audit Act.

⁶ In relation to the firm's policies and procedures, a significant deficiency is considered to exist when the implementation of the policies, procedures, tools or internal controls established by the audit firms is not appropriate to reasonably ensure compliance with the applicable requirements contained in the regulations governing the auditing of accounts, in accordance with the provisions of the Internal Quality Control Standard for auditors and audit firms published by the ICAC Resolution of 26 October 2011.

- In the process of accepting a new assignment, incompatibilities and/or potential hindrance to independence affecting individuals may go unidentified.
- Lack of documents to analyse barriers to auditor and audit firm independence when non-audit services are provided by a network firm.
- Lack of procedures to identify and assess, in terms of independence, non-audit services (hereinafter NAS) provided to customers other than the audited company.
- Need for further verification of whether NAS are implemented as proposed.
- Lack of a procedure to control the threat of familiarity, by maintaining a prolonged relationship with a customer and, where appropriate, the safeguards to be adopted, indicating the period of time that an assignment must be maintained in order to understand that this threat is incurred.
- Lack of evidence that the requirements set out in the manuals have been assessed to conclude on the continuity and acceptability of customers and assignments with respect to staff competence and capability, ethical and independence requirements and customer integrity.
- Failure to design policies and procedures to control the financial dependence of the audited entity and its related parties or the possible contingent nature of fees.
- In the completion of the certificates of independence, there is no record that related parties of the audited company are made available to the staff.
- There is no indication of the procedure to ensure that there are no supervening situations that could affect independence at the date of issuance of audit reports.

iii. Human resources

With regard to human resources policies and procedures, no significant improvement requirements were observed in the inspections on non-PIE auditors.

iv. Performance of assignments

In the Performance of Assignments element, the main improvement requirements for non-PIE auditor inspections relate to the following aspects:

- Lack of objectivity in determining which assignments should be reviewed by another partner.
- There is no attribution of supervisors in the quality control manual to ensure independence in the conclusions.
- Lack of evidence from the working papers as regards comments justifying the assertions and compliance stated.
- There is no record of any measures taken to avoid potential conflicts of interest in the event of cross-reviews of two partners of the same firm.

- The quality control manual includes no criteria for the selection of assignments that should be subject to an Engagement Quality Control Review (EQCR).
- Lack of consistency in firms' policies and procedures on how they ensure that there are no customers in their portfolio for whom, for technical or other reasons, an EQCR should be performed.
- There is no evidence in the assignment review memoranda that, in the context of the EQCR, held a discussion with the signing partner regarding the observations arising from its review, nor evidence of the considerations made in reaching the conclusions of its review.

v. Quality control system tracking

In the Quality Control System Tracking element, the main improvement requirements for non-PIE auditor inspections relate to the following aspects:

- Potential conflict of interest given that, on occasions, the selection of the assignments to be inspected and the persons who will carry them out is the responsibility of the partners. A similar conflict arises between tracking functions and functions responsible for the internal quality control system.
- The inspection review memoranda do not contain evidence of the tests performed by the reviewer or the documentation analysed to support the reviewer's conclusions.
- There is no obligation to report incidents to the companies in the network.
- There is no record that the policies and procedures of the firms' internal quality control system have been verified on an ongoing basis.
- Quality control manuals that do not include policies and procedures to deal with cases where tracking or inspection results detect inadequate reports.
- Lack of procedures to require an express statement of the tracking inspector's independence from the assignment(s) to be reviewed.
- Statements and observations made in response to a description of the internal quality control system, yet with no indication of specific tests carried out to verify the proper functioning of the internal quality control system.
- There is no record of how and to what extent the results of the tracking are communicated to the staff of the firms that are not partners.

Inspections of non-PIE auditor assignments

The scope of the inspections included 2 audit assignments for 2 non-public-interest entities.

The two entities for the selected assignments are both in the other consumer goods sector.

The distribution of improvement requirements made in the inspection of non-PIE audit assignments, broken down by technical subject matter of the audit, is as follows:

AUDIT ASPECTS	No. of requirements	% over total requirements
Substantive procedures	25	64.1%
Control tests	10	25.6%
Identifying and assessing the risks of material misstatement	3	7.7%
Response to identified risks of material misstatement	1	2.6%
Audit report	-	-
TOTAL	39	100%

The main improvement requirements made on audit assignments of non-PIE entities were:

- The audit procedures were deemed insufficient, in light of the circumstances, to produce satisfactory and appropriate audit evidence.
- With regard to the information used as audit evidence, particularly when using information generated by the entity, the auditor has not adequately assessed whether, for the purposes thereof, such information suffices not only in terms of reliability, accuracy and completeness, but also precision and detail.
- With regard to the subsequent audit procedures that address the assessed risks of material misstatement of assertions, it was noted that these procedures do not provide assurance that their nature, timing and extent are based on, and adequately address, the assessed risks of material misstatement of assertions.
- Incorrect sample size determination and selection of items by the auditor to reduce the sampling risk to an acceptably low level.
- The auditor's substantive procedures do not include the full set of procedures required by regulation relating to the financial statement closing process, either in respect of the examination of the consistency or reconciliation of the financial statements to the accounting records from which they are derived, or in respect of the examination of journal entries and other material adjustments made in the course of the financial statement preparation process.
- Misstatements in the audit procedures that address the assessed risks of material misstatement of assertions. We found that, in some instances, either the reasons necessary for the assessment of the risk of material misstatement were not considered (by not including the probability of occurrence of material misstatement or by not obtaining evidence as to whether controls were operating effectively), or we did not ensure that the audit evidence was more convincing the higher the risk assessment was made.
- Failure to design or apply sufficient substantive procedures for each type of transaction, accounting balance and material disclosures.
- The auditor's knowledge of the information system of all areas relevant to financial reporting is not detailed.

Investigations

There were 227 investigations conducted in 2020, which is 46 engagements more than in 2019 (up 25.41%).

These engagements were classified-as follows:

INVESTIGATION TYPE	No of Engagements	Percentage over total engagements
Whistleblowing	50	22%
Investigations into continuing education and training	100	44%
Investigations into transparency	60	26%
Investigations into audit assignments	17	7%
TOTAL	227	100%

The following table summarises the investigation engagements carried out and their outcome:

INVESTIGATION TYPE	No. of Engagements	Without incident	With deficiencies	Percentage of deficiencies over engagements
Whistleblowing	50	40	10	20%
Training 1 Oct 2017-30 Sept 2018	100	44	56	56%
Formal requirements for transparency reports for fiscal years closed in 2018	60	51	9	15%
Audit assignments with insufficient indicators	17	0	17	100%
TOTAL	227	135	92	
Percentage over total engagements		59.47%	40.53%	

Whistleblowing

The 50 tip-offs received via whistleblowing mainly concern the performance of audit work of entities other than public interest entities. After analysis, 35 tip-offs were closed in 2019 (70%), as there was no sufficiently substantiated evidence of non-compliance with the regulations governing the auditing of accounts that could lead to an infringement that was not time-barred.

Of the remaining 15 tip-offs received, after analysis, of a violation were found in one case, and investigation engagements were initiated in the other-14 audit assignments for possible indications of a violation. Following the corresponding investigation, 5 audit engagements were closed and indications of violations were found for the other 9 audit engagements (representing 18% of the tip-offs received). The main indications of non-compliance identified are as follows:

TYPE OF INDICATION OF NON-COMPLIANCE DETECTED VIA WHISTLEBLOWING	No. of possible non-compliances detected
Possible non-compliance with Auditing Standards that could have a significant effect on the outcome of the work and consequently on the audit report	6
Possible lack of independence	4
TOTAL	10

Training, transparency and assignments

All the engagements were completed in 2020, with the assistance of the auditors' representative bodies provided for in the ICAC's engagement plan for 2019, in accordance with the agreement signed with these bodies in September 2019, aimed at investigating the following aspects:

- Compliance with the minimum training requirements for auditors in practice, for the period from 1 October 2017 to 30 September 2018.
- Formal requirements for transparency reports for fiscal years closed in 2018 of auditors and audit firms of public interest entities.
- Audit work, for which there were indicators of insufficient resources to carry out the audit work with the quality required by the regulations governing the audit activity.

INVESTIGATION TYPE	Total engagements
Continuing education period 1 Oct 2017 - 30 Sept 2018:	100
Formal requirements for transparency reports for fiscal years closed in 2018	60
Account auditing assignments (low fees)	17
TOTAL	177

With regard to the 100 engagements to verify the minimum mandatory training for the period from 1 October 2017 to 30 September 2018 completed in 2020, 44 engagements (44%) were closed as no indications of a possible violation were detected. In the other 56 engagements (56%), indications of violation were detected, due to the lack of accreditation of the completion of the minimum mandatory training through approved courses.

With regard to transparency report verifications, of the 60 engagements to verify the formal requirements of transparency reports concluded in 2020, 51 were archived and on 9 occasions deficiencies were detected, consisting mainly of the failure to publish transparency reports within the legally established deadline.

With regard to the investigation of audit assignments of non-PIE entities listed in the table above, 20 investigations were initiated, 3 of which had to be closed for various reasons. In all of the

remaining 17 audits investigated, deficiencies were found and the appropriate action was taken to assess whether the corresponding disciplinary proceedings should be opened.

All the engagements for the investigation of audit assignments indicated in the table above were initiated on the basis of risk indicators of insufficient dedication of resources to carry them out, with the quality required by the regulations governing the audit activity. The outcome of these engagements confirms the need for auditors to have adequate and sufficient resources, taking into account the nature, complexity and size of the audited entities, and the need to acquire up-to-date knowledge of auditing standards.

The ICAC's 2021 engagement plan contemplates the continuity of inspection and investigation engagements carried out with the assistance of the auditors' representative bodies. Agreements were thus signed with the General Council of Economists of Spain and Institute of Chartered Accountants of Spain for the following engagements to verify audit work in respect of which there are indicators of insufficient resources for the assigned work with the quality required by the regulations governing the auditing of accounts; verifying compliance with the minimum compulsory training of auditors in practice for the period between 1 October 2018 and 30 September 2019, and the formal requirements of the transparency reports of the auditors and audit firms of public interest entities. These agreements provide for 100 engagements on training, 60 on transparency reports and 10 engagements on audit assignments. These engagements are expected to be completed in 2021.

III.5 OVERALL RESULTS AND CONCLUSIONS REACHED ON THE QUALITY CONTROL SYSTEM

Drawing conclusions on the situational analysis of auditor quality assurance systems must necessarily be done from a perspective that considers their evolution over time. In this regard, it is worth noting the continuous improvement of auditor internal quality control systems since the entry into force of the Audit Act. There is a particularly noticeable decrease in the number of recommendations for improvement made by auditors who have already completed several inspection cycles, and in the seriousness of the content of these recommendations.

This continuous improvement process was driven by the significant increase in inspection engagements in the past year, despite the contextual difficulties of pandemic. Inspections have increased from two (2) completed in 2019, to five (5) completed in 2020; reviewed engagements have increased to 13 in 2020 from seven (7) in 2019; and finally, investigative engagements have increased to 227 in 2020, which is 46 engagements more than in 2019.

Despite this increase, the number of inspections conducted in each year and the number of audit engagements included in their scope is still limited to draw generalised conclusions on the overall quality of auditing in Spain in each one. However, the supervisor's perception is that the quality of audits carried out in Spain is perfectly comparable to that of audits carried out at the European level.

With regard to the improvement requirements, the following table summarises the trend by indicated improvement requirement type:

QUALITY CONTROL SYSTEM ELEMENTS	% Improvement requirements in 2020	% Improvement requirements in 2019
(i) Quality leadership responsibilities	5.6%	9.8%
(II) Acceptance and continuity of audit assignments and customers	16.7%	19.6%
(iii) Applicable ethics requirements	29.6%	29.4%
(iv) Human resources	11.1%	17.6%
(v) Performance of audit assignments	20.4%	19.6%
(vi) Tracking	16.7%	3.9%

Ethics and independence remain the most frequently raised improvement requirements within quality control system elements, accounting for almost 30% of the total for the second year in a row. There is a significant increase in the number of requirements referring to tracking, compared to the total number of requirements (from 3.9% of the total to 16.7%), and a decrease in those referring to other areas such as human resources.

Legislation calls for effective measures to be taken by auditors to strengthen or modify policies, procedures, processes and controls, or their implementation, so that the system of quality control meets the objectives set out in the regulations governing the audit activity. In this regard, a number of quality control policies and procedures have been formalised and strengthened in 2020.

It remains essential that the analysis of the estimated time for the provision of audit services does not compromise the ability to comply with regulations, as this would defeat the purpose for which the audit report is intended. Accordingly, the fee estimate should be based primarily on the audit effort to be expended, which will be the result of the time, resources, staff, skills and experience necessary to perform the work properly in order to preserve its quality, in accordance with the complexity and size of the audit to be performed. The estimation of such fees should not be influenced or affected by any additional services that the auditor may provide to the audited entity, which are permitted under the auditor's independence and prohibition regime to which the auditor is subject.

As regards the inspection of audit assignments, the outcome of the inspections carried out in recent years continues to highlight the need to improve the procedures for identifying and assessing risks of material misstatement, and also to improve the nature and extent of testing (controls and substantive) in order to adequately address the risks of material misstatement and to draw conclusions to form an appropriate and sufficient opinion for the issuance of audit reports.

Finally, it should be noted that, as mentioned above, 2020 has not only seen a significant increase in supervision figures, but also the initiation of far-reaching reforms within the Institute, most notably:

- Improved planning for inspection and investigation engagements.

- The introduction of recommendations for improvement in the reports, in such a way that the quality of the audit sector is increased and confidence in the audit sector and the economy is enhanced by making suggestions on deficiencies that are not relevant or not widespread.
- The start of Risk-Based Supervision, as a modernising element that will undoubtedly increase the productivity and effectiveness of Supervision.

It is undoubtedly a 2020 in which, even in the current pandemic context, audit oversight has adapted remarkably well to the situation. Not only have the numbers of inspections and investigations risen, but a process of modernisation of supervision has begun and will continue in 2021.

III.6 DISCIPLINARY ACTIVITIES

The disciplinary engagements in 2020 consisted of the processing of administrative disciplinary proceedings for auditing infringements, assisting the Chairman in the drafting of the acts within his competence issued in these proceedings.

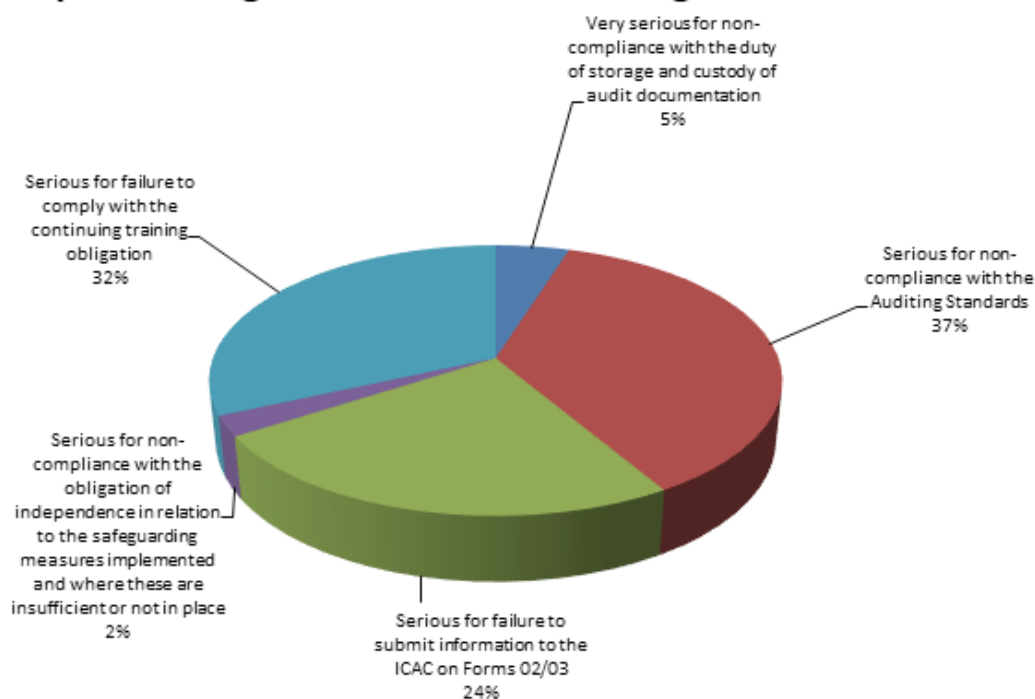
The **number of disciplinary proceedings** in the audit area settled in 2020 decreased slightly to 49, compared to 54 in 2019.

Of the 49 disciplinary proceedings resolved in the area of auditing, 8 were resolved without levying a sanction. One of these eight cases, due to the limitation on the breach, as the notification of the resolution to commence could not be made before the limitation expired. Another case ended without a sanction because it had been initiated in 2007, and was suspended due to the fact that the National High Court's criminal court was hearing the case on the merits, in which the auditor was finally convicted. Four other cases ended without a sanction because the non-compliance alleged was not proven. Finally, another case ended without a sanction because the investigation found that the auditor had not committed the non-compliance alleged.

In the other 41 cases processed and resolved in relation to auditing, **infringements of the audit regulations** were declared to constitute very serious and serious breaches, as detailed in the following table.

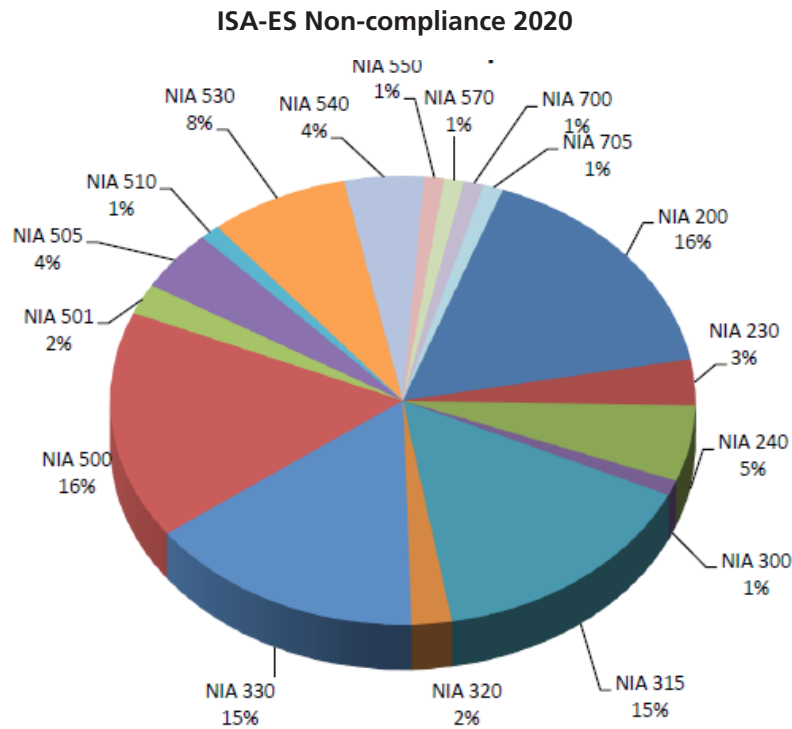
BREACHES INCLUDED IN THE DISCIPLINARY PROCEEDINGS SETTLED IN THE AUDIT AREA	Proceedings in 2020	Proceedings in 2019
Very serious for lack of independence	-	3
Very serious for carrying out audit work being registered as non-practising auditor	-	2
Very serious for non-compliance with the duty of conservation and custody of audit documentation	2	-
Serious for lack of independence	-	1
Serious for non-compliance with the Auditing Standards	15	17
Serious for failure to submit information to the ICAC on Forms 02/03	10	18
Serious for failure to report network information to the ICAC	-	9
Serious for non-compliance with the obligation of independence in relation to the safeguarding measures implemented and where these are insufficient or not in place	1	1
Serious for failure to comply with the continuing education obligation	13	-
TOTAL	41	51

Violations included in the disciplinary proceedings settled in the auditing area 2020



In the files processed as a result of non-compliance with auditing standards that could have a significant effect on the result of the audit work and, consequently, on the audit report issued (serious infringement), in which sanctions were levied (15, mostly relating to audit work on the accounts for the 2017 financial year), the non-compliances essentially concerned the following international auditing standards:

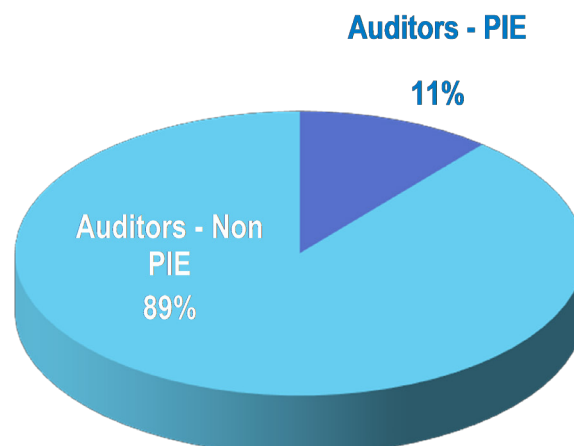
ISA-ES Non-compliance	Proceedings in 2020	Proceedings in 2019
ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing".	15	7
ISA 230 "Audit Documentation".	3	4
ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"	5	-
ISA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements"	-	-
ISA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management".	-	-
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".	14	-
ISA 320 "Materiality in Planning and Performing an Audit".	2	-
ISA 330 "The Auditor's Responses to Assessed Risks".	14	4
ISA 450 "Evaluation of Misstatements Identified during the Audit".	-	1
ISA 500 "Audit Evidence".	15	4
ISA 501 "Audit Evidence-Specific Considerations for Selected Items"	2	-
ISA 505 "External Confirmations".	4	-
ISA 510 "Initial Audit Engagements-Opening Balances".	1	-
ISA 520 "Analytical Procedures".	-	2
ISA 530 "Audit Sampling".	7	4
ISA 540 "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures".	4	4
ISA 550 "Related Parties".	1	-
ISA 560 "Subsequent Events".	-	3
ISA 570 "Going Concern".	1	4
ISA 580 "Written Representations".	-	-
ISA 600 "Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)"	-	-
ISA 700 "Forming an Opinion and Reporting on Financial Statements".	1	3
ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report".	-	-
ISA 705 "Modifications to the Opinion in the Independent Auditor's Report".	17	4
ISA 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".	-	4



The following chart breaks down the number of resolved cases in which non-compliance with the obligation of conservation and custody of audit documentation, non-compliance with technical auditing standards that could have a significant effect on the audit work and the report issued or non-compliance with the duty of independence has been declared, in relation to the number of **auditors of public interest entities (PIE)** in respect of which disciplinary proceedings have been processed, according to the data shown in the following table:

	AÑO 2020	AÑO 2019
PIE Audits	2	5
Non-PIE Audits	16	12

Proceedings related to audit work on PIE and non-PIE engagements in 2020



The amount of sanctions levied in 2020 broken down by sanctioned auditor type:

SANCTIONED	amount
Audit firms and partners	1,144,990.63
Individual auditors	48,600.00
Total pecuniary sanctions	1,193,590.63

In addition to the foregoing, it should be noted that the following appeal reports were filed in 2020 under article 47 of the Audit Act in relation to sanctioning proceedings in relation to audit matters:

APPEAL REPORTS	2020	2019
Appeal reports arising from audit proceedings	17	19
Extraordinary review appeal reports from audit proceedings		1

In addition, a total of 10 out of a total of 18 disciplinary proceedings were sent to different courts, with the corresponding information and support.

In 2020, seven (7) rulings were handed down by the corresponding judicial bodies, in all cases rejecting the appeals lodged by the auditors and confirming the ICAC's criteria. In 2020, three rulings were also handed down, deciding that an appeal in cassation against rulings handed down in the previous year by the 3rd Section of the Contentious-Administrative Chamber of the National High Court was inadmissible.

III.7 COMMUNICATIONS ISSUED

The following communications were issued in relation to the European Single Electronic Format (ESEF) regulation and also in the wake of the problems generated by the COVID pandemic:

- Joint communication of the Spanish Association of Registrars, the ICAC and the National Securities Market Commission in relation to the preparation and filing of the financial statements of securities issuers of the ESEF format.
- Announcement regarding the impact of the state of alarm on the theoretical educational programmes approved by the ICAC for access to the Official Registry of Auditors.
- Communication regarding the impact of the state of alarm on the continuing education required of statutory auditors for the annual period ending 30 September 2020 and its consideration as a force majeure.

III.8 RESPONSE TO QUERIES

The ICAC's engagements with auditors and audit firms include the examination and preparation of responses to queries on the interpretation and application of audit regulations. Resolved queries deemed to be of general interest are selected from all the resolved ones for quarterly publication in the Institute's Official Gazette.

The following table shows the data on the queries processed in recent years, grouped into the following topics:

QUERIES	2020	2019	2018
Issued queries	274	279	332
1. Appointment and commissioning of auditors	15	33	41
2. Official Registry of Auditors	127	130	156
3. Independence regime	11	20	17
4. Audit obligation	16	20	11
5. Audit work and report	21	16	21
6. Public interest entities	21	5	16
7. Various	63	55	70
Published queries	3	7	8

The queries received addressed various aspects of the effective application of the regulations governing the activity of auditing, the most frequent of which are as follows:

- audit requirement of certain entities,
- the effect of the Covid-19 pandemic situation and the related regulatory framework on the formulation and verification of financial statements,
- scheduling the fees for statutory auditors, in particular when the appointment is made by the relevant Business Registrar,
- independence regime,
- appointment of auditor and contract terms and revocation,
- rotation of auditors in public interest entities,
- registration in the Official Registry of Auditors of the European Union or of third countries,
- payment of the fee in certain works and situations.

In this respect, it should be noted that a compendium of queries received and a summary of the replies issued by the Institute concerning the duration of the audit engagement and the rotation obligation, particularly in the case of public interest entities, has also been published on the website and in the BOICAC.

Certain queries, which are considered to be of general interest, are published on the Institute's website and in the Institute's Official Gazette in order to better disseminate the Institute's criteria. In 2020, the following queries were published in the BOICAC:

Query No.	BOICAC	Topic
1	121/MARZO 2020	Effect of the health crisis and of Royal Decree Law 8/2020 of 17 March on extraordinary urgent measures to address the economic and social impact of COVID-19 on the process of formulation, verification and approval of the financial statements of the different companies and entities.
1	123/SEPTIEMBRE 2020	On whether in cases where two audit reports are issued as a result of the restatement of the financial statements by the audited entity, the second report is subject to the fee for issuing reports and must be declared on form 03 for the communication of information to the Official Registry of Auditors.
	124/DICIEMBRE 2020	Compendium of queries received in 2020 concerning the duration of the audit engagement and the rotation obligation and summary of the replies issued by the ICAC.

III.9 INTERNATIONAL ACTIVITY

International activity in the audit field is essential for the ICAC, in particular considering the needs for co-operation and co-ordination both from a regulatory point of view and in terms of supervisory activity.

In the European Union, this activity is mainly carried out through the Committee of European Audit Oversight Bodies (CEAOB), although participation in the Audit Regulatory Committee (AuRC) is also relevant.

From a global perspective, participation in the International Forum of Independent Audit Regulators (IFIAR) is noteworthy.

International activity also includes other supervisory cooperation activities, such as colleges of Competent Authorities or direct cooperation with other competent authorities.

The most relevant aspects of international activity are described below.

CEAOB

The CEOB is the framework for co-operation between national audit oversight bodies at EU level. Its role is to strengthen EU-wide audit oversight, which is a key objective of the EU legislation on statutory audit that took effect on 17 June 2016. To this end, CEOB organises cooperation between competent authorities to promote the consistent application of European auditing standards, to facilitate the exchange of information and to advise the Commission on matters including the technical assessment of third country oversight systems and the technical examination of international auditing standards with a view to their adoption at European level.

The CEOB comprises representatives from the national audit oversight bodies of the EU and the European Securities and Markets Authority (ESMA). Representatives of the national audit authorities of the European Economic Area also participate. The European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) are observers.

At the organisational level, it should be noted that during 2020, the Chairmanship of CEAOB changed at the expiry of the previous term of office, through a process of e-mail election and voting. CEAOB members decided in July 2020 to entrust the Chairmanship to the candidate of the French H3C authority, Patrick Parent.

The committee operates both through plenary sessions and through the following sub-groups:

- **Standards Subgroup:** a working group that reviews draft standards issued by the international issuer, the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standard Board (IAASB) in order to draft comment letters for submission to the IAASB. It also carries out an analysis of the differences between the standards applicable in each Member State of the European Union and the Standards issued by IFAC, with the aim of advising the European Commission in the process, if any, of adopting the standards at European level.
- **Inspections Subgroup:** working group sharing mainly experiences from inspections, audit deficiencies detected in inspections, dialogue with audit firms, inspection methodology, and international audit and ethics standard setters (IAASB and IESBA).
- **Enforcement Subgroup:** European-level working group established to draw up the report on existing investigation and sanction practices, statistics on the sanctions levied in accordance with the new European auditing regulations, and the model for reporting temporary and permanent withdrawal sanctions to CEAOB, as contemplated in article 30.f) of Directive 2006/43/EC, as amended by Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014, in addition to exchanging practical experience in the field of investigations.

The CEAOB Plenary is the instrument through which the heads of Member State audit oversight authorities participate and where decisions are formally adopted. Three plenary meetings have been held remotely in 2020 (March, June and November).

Thematically, the most relevant aspects in which CEAOB has been involved during 2020 include:

- Tracking of engagement by IAASB and IESBA on the issues included in the CEAOB letters sent to these international standard setters, on fees, on professional skepticism, on non-audit services and on technology and new forms of reporting.
- Comments in relation to the draft International Standard on Auditing (ISA) 600 Specific Considerations – Audits of Group Financial Statements (including the work of the component auditors) set out in a letter endorsed by the CEAOB Plenary and sent to the IAASB.
- Analysis of a discussion paper prepared by the IAASB to obtain feedback from stakeholders on expectations regarding the auditor's engagement and responsibilities in relation to fraud and the going concern principle in the audit of financial statements, and a letter setting out the main ideas agreed within the group has been prepared and endorsed by the CEAOB Plenary and sent to the IAASB.
- Tracking of the project initiated by the IAASB in previous years to develop a separate standard for audits of Less Complex Entities (LCE). At the end of the year, a first draft of the standard was presented by the LCE Working Group to the IAASB Board and will be further developed over the coming year, leading to the issuance of the draft for consultation by the summer.

- Monitoring of the engagements carried out by the different Member States for the implementation of the CEAOB guidelines issued in the previous year with regard to the requirements for the preparation of the annual report of certain entities in accordance with the European Single Electronic Format, with the exchange of information on the initiatives planned in each jurisdiction.
- Discussion on the positions of the different Member States on the Commission's draft proposal for the Digital Operational Resilience Act (DORA).
- Analysis of issues raised regarding the application of certain provisions of European auditing legislation (Directive and Regulation) in matters relating to the application of auditing standards. The differences between the International Standards issued by the IAASB and the standards adopted in the different Member States were also discussed as a means of advising the European Commission on their possible adoption at the EU level.
- Working meetings to improve the consistent development of statutory auditors' and audit firms' inspection methodology, exchange of experiences on inspection practices, as well as analysis and dialogue with the six major European audit firm networks on the main audit deficiencies and the actions of these networks to promote measures to reduce these deficiencies.
- Participation in the preparation of the report on existing investigation and sanctions practices, statistics on the fines levied in accordance with the new European auditing regulations, and the model for reporting temporary and permanent withdrawal fines to CEAOB, as well as for exchanging practical experience in the field of investigations.
- The Inspections Subgroup's annual meeting was held telematically in November 2020. The three-day event addressed all relevant issues to ensure the best coordination and standardisation of audit control procedures at the European level. Issues discussed included remote inspections with the PCAOB, updating sub-working groups, review of the Common Audit Inspection Methodology (CAIM) and dialogue with relevant firms and the IAASB.

In 2020, the new CEAOB chair promoted the creation of several working groups to review and strengthen different aspects of CEAOB (organisational, competence, operational, etc.).

Meetings of the Audit Regulatory Committee (AuRC)

This committee comprises EU Member State authorities with auditing regulatory powers. In 2020, its main activity included analysing aspects related to the processing of the Non-Financial Reporting Directive that the European Commission is preparing, along with the potential aspects related to the engagement of auditors with regard to fraud.

A meeting of the AuRC was held during the year to discuss, in the wake of the Wirecard case, the lines of defence available in these cases of business failure and, in particular, the role of the auditor in relation to fraud and how oversight of these issues can be strengthened, both through the oversight of audit committees and by strengthening the fraud aspects of inspections of auditors.

Further engagements. Supervisory colleges

The ICAC has participated in the four European Supervisory Colleges established for each of the four major European audit firm networks. In these colleges, the main deficiencies detected in the inspections are presented to the heads of the European networks and initiatives are taken by these networks to improve the quality of the audits carried out by the audit firms that are members of these networks, which is why participation in these colleges is essential.

IFIAR

The International Forum of Independent Audit Regulators (IFIAR) comprises 55 authorities from five continents, with the aim of exchanging experiences and knowledge in the field of inspections and technical auditing standards. This Forum meets both in Plenary and in groups.

The ICAC, as a member of IFIAR, has participated in the working **meetings** organised to foster dialogue with the six largest global networks of audit firms and international audit standard setters, and to promote the changes needed to improve audit quality.

Also during the year 2020, participation in the IFIAR Standards Coordination Working Group (SCWG) has taken place in which, from a global perspective, comment letters on standards issued by the IAASB or responses to requests from the Chairman and Vice-Chairman of IFIAR have been drafted, highlighting the comment letter on the draft International Standard on Auditing (ISA) 600 Specific Considerations – Audits of Group Financial Statements (including the work of the component auditors).

III.10 THE AUDIT COMMITTEE

In the exercise of the powers attributed to the ICAC, two meetings of the Audit Committee were held in 2020 (three meetings in 2019), all of which were held virtually as a result of the COVID-19 pandemic to which the matters required by the applicable regulations were submitted.

The main issues discussed at the two meetings were:

- The Resolutions on the provisional publication for public information of the Technical Auditing Standard on the auditor’s responsibilities in relation to financial statements presented in the European Single Electronic Format (ESEF) and the amendment to ISA-ES 700 “(revised) “Forming an Opinion and Reporting on Financial Statements”.
- The Resolutions on the provisional and final publication of the Technical Auditing Standard “Auditing Accounting Estimates and Related Disclosures”, ISA-ES 540 (revised), amendment of Auditing Technical Standard “The Auditor’s Responsibilities Relating to Other Information”, ISA-ES 720 (revised), and publication of the Technical Auditing Standard on the preparation of the supplementary report on the audit of the financial statements of credit institutions and financial credit institutions.
- The presentation of the auditing activity control plan.
- The dossier of queries received in 2020 on the duration of the audit assignment and rotation obligation for publication in the BOICAC of December 2020.

IV DEPOSIT OF ACCOUNTS

The disciplinary engagements in 2020, by virtue of the powers assigned to the ICAC by article 282 of the consolidated text of the Corporate Enterprises Act, consisted of the processing of administrative engagements involving sanctions for breaches of the obligation to file the financial statements with the Business Registry, assisting the Chair in the drafting of the acts within the remit issued in these proceedings.

The number of disciplinary proceedings in the deposit of accounts area settled increased to 164, compared to 162 proceedings resolved in 2019.

In relation to this competence, the following appeal reports have been issued during the financial year 2020, increasing with respect to the previous year as indicated in the following table.

APPEAL REPORTS	2020	2019
Appeal reports arising from account deposit proceedings	7	7
Reports on appeals for reconsideration arising from account deposit proceedings	7	8
Reports on appeals before regional economic-administrative courts.	5	

V ICAC ORGANISATION AND MANAGEMENT

In 2020, despite the challenge posed by COVID-2019, the ICAC was able to ensure that both, the organisation and the management of its activities, were carried out effectively and efficiently, successfully attaining the assigned objectives.

The organisation's rapid response in providing all employees with the necessary means for teleworking and the positive attitude of its staff, who have proven to be undeniably adaptable to this reality, have made this possible.

V.1 ORGANISATIONAL STRUCTURE

The ICAC is divided into four general sub-directorates.

General Secretariat

It is structured into the following services:

- Human Resources Service: in charge of all administrative tasks such as the study, proposal and management of the Institute's personnel policy.
- Administration Service: in charge of all internal clerical, administration and office functions, management of material resources, buildings and facilities.
- Procurement Service: responsible for the processing of all stages of contracts, orders to own resources, collaboration agreements, nominative subsidies and payment of dues to

international organisations, as well as all procedures for the payment and justification of funds from the Agency's Fixed Cash Advance.

- Economic and Financial Management Service: in charge of the economic, accounting and budgetary management of the Institute, as well as the complete management of the collection of the fee for the control and supervision of the activity of the auditing of accounts and the fee for the issuing of certificates or documents at the request of a party and for registrations and entries in the Registry of Statutory Auditors.
- Management and maintenance of the Registry of Statutory Auditors (described in section III. Audit Area, sub-section III.3 The Audit Sector in Spain. Audit Sector of this Report).

In addition to these services, the General Secretariat is in charge of ICAC Publications, in particular the organisation, maintenance and publication of the ICAC Gazette (BOICAC) on its website, as well as other national and foreign documentation of interest in accounting, financial and auditing matters.

The IT Unit is also located within the General Secretariat with the aim of promoting the ICAC's Digital Transformation Plan, within the overall strategic framework of the Digital Transformation Plan of the General State Administration (GSA) and its Public Bodies (OP), ensuring the maintenance and updating of the technological structures, systems, communications and, in general, all ICT services, which are essential to guarantee the efficient management of the ICAC as a whole.

Subdirectorate General of Accounting Standardisation and Technique.

It performs its functions in two interrelated areas:

- Domestic area:
 - Regulation: preparation of draft accounting regulations.
 - Queries and reports on the correct interpretation of national accounting regulations.
 - Cooperation with other institutions.
 - Non-financial reporting.
- International area:
 - European regulation: on financial and non-financial reporting.
 - Drafts/bills/projects and policy proposals: IASB and EFRAG.
 - Cooperation with other institutions issuing accounting pronouncements.

Subdirectorate General of Technical Audit Standards.

It is structured in the following areas:

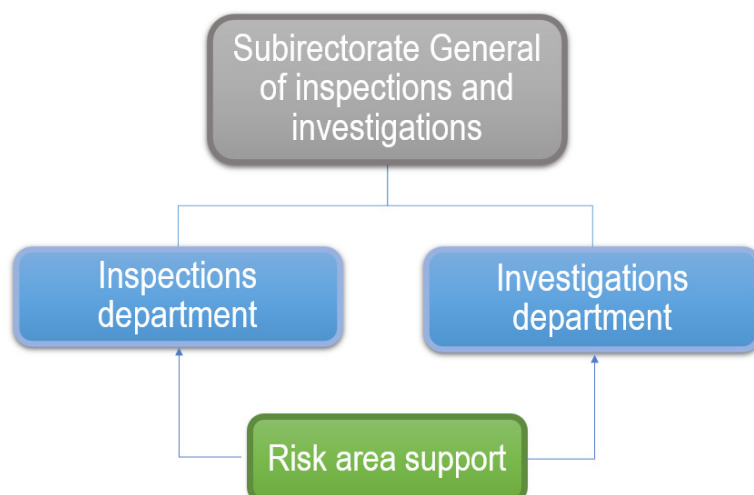
- Deposit of accounts area, responsible for processing disciplinary proceedings for non-compliance by companies with the obligation to deposit their accounts in the corresponding Companies Register.
- Registry of Statutory Auditors access training area, dedicated to the approval of Registry of Statutory Auditors access training courses, the preparation of Resolutions granting exemption from the exam for access to the Registry of Statutory Auditors and the execution and publication of sanctions levied in the field of auditing.

- Continuing education area, in charge of preparing the Resolutions for the recognition of the centres that may organise continuing education activities, for the approval of continuing education activities and for the granting of extensions to this obligation in the event of force majeure.
- Regulatory area, responsible for the preparation of legislative and regulatory changes in auditing matters, as well as the tasks necessary for the adoption of technical auditing standards (which includes the review of the translation of international auditing standards and the debate for their subsequent adoption in Spain through adaptation to our regulations or the debate of the technical auditing standard in the event that it does not derive from an international standard).
- Sanctioning procedure area, in charge of processing sanctioning proceedings in auditing matters.
- Query and draft regulations area, responsible for the resolution of queries and the preparation of comment reports on draft regulations prepared by other bodies or units.
- International area, responsible for the participation of the Sub-directorate in European and international groups related to auditing activities, participating in the preparation of questionnaires, answering questions, communications, preparing comment letters on the standards issued or documents prepared by the body issuing international auditing standards, and other activities.

Subdirectorato General of Technical Control.

In 2020, this sub-directorate embarked on an organisational reform with a greater number of actions, increasing the type of control actions carried out by the ICAC and improving efficiency in the use of resources. The main purpose is to reinforce the preventive aspect of control actions and to improve compliance with inspection cycles. While this reform has not yet been formalised, three internal areas or departments are contemplated:

- Inspections area
- Assignments and investigations area and,
- Risks area



This reorganisation is consistent with the configuration of the Audit Act's control activities over auditors. The inspections area will thus be responsible for conducting inspections on auditors, and compliance with the inspection cycles. The assignments and investigations area will provide support in the review of audit assignments during inspections.

A new feature of the formal separation of the investigations and assignments area is that, in addition to carrying out inspections of assignments, this area will independently conduct investigations on audit assignments where the level of risk warrants review. This will allow the ICAC to respond more quickly to risk situations by dedicating specific resources to risk-based supervision.

The Inspections and Assignments and Investigations Areas will both receive technical support from the Risks Area, whose main responsibility will be to identify the specific areas and assignments to be prioritised in inspections and investigations, through the use of data analytics tools and financial information (the latter will be disclosed periodically), thus enabling more accurate preparation of the Control Plans.

V.2 HUMAN RESOURCES AND ADMINISTRATION

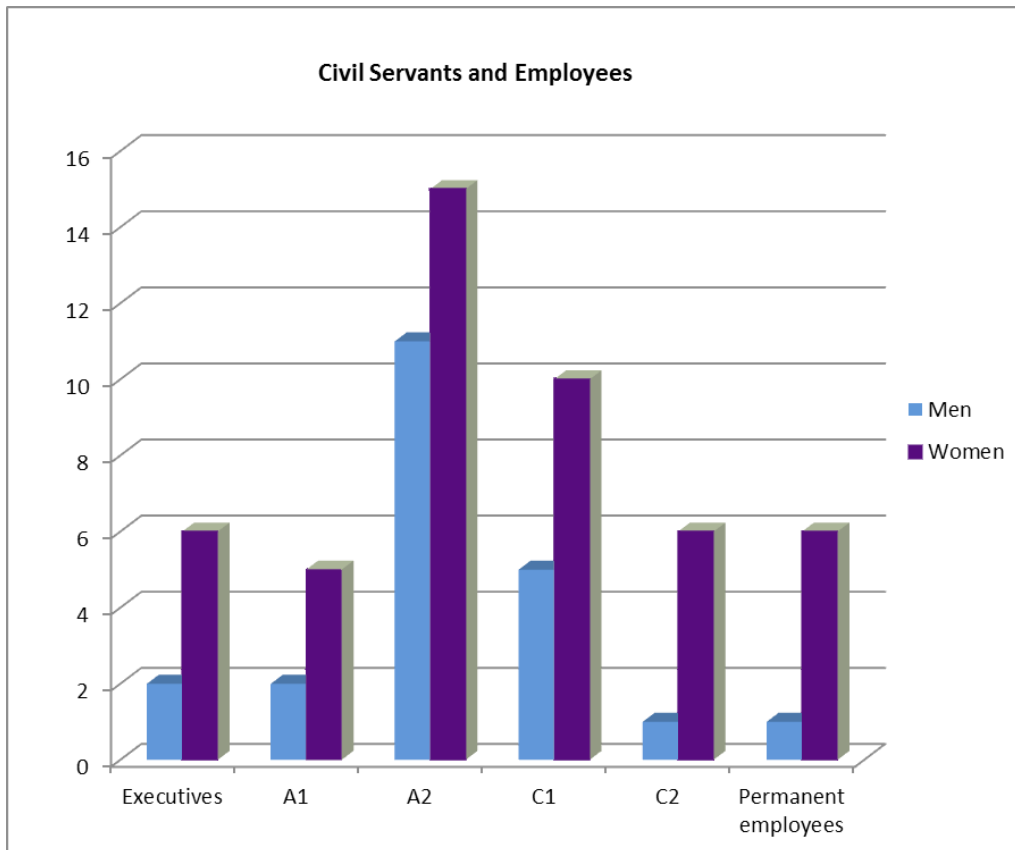
At year-end 2020, ICAC staff amounted to 70 employees, broken down as follows:

List of Civil Servants and Employees by level and gender

Civil servants and employees			
PERSONNEL TYPES	MEN	WOMEN	TOTAL
SENIOR OFFICIALS	1	0	1
CIVIL SERVANTS:			
Executives	2	6	8
Group A1	2	5	7
Group A2	11	15	26
Group C1	5	10	15
Group C2	1	6	7
Professional groupings	0	0	0
TOTAL	21	42	63
OTHER PERSONNEL:			
Administrative staff	0	0	0
Other staff	0	0	0
TOTAL	0	0	0
CONTRACTUAL EMPLOYEES:			
Chapter I Permanent employees	1	6	7
Chapter I Temporary employees	0	0	0
Chapter VI	0	0	0
TOTAL	1	6	7

As a public institution, the ICAC is able to carry out and fulfil its functions in an exemplary manner thanks to the daily commitment of all the people who form part of its staff, always bearing in

mind equal opportunities between men and women, with women accounting for approximately double the number of men. In addition, the ICAC's top management is noteworthy insofar as the ICAC has 8 senior managers, with 6 women among them.



Fourteen people have served the ICAC as external contracted staff in 2020.

There were four individuals who left and one new hire, in addition to significant changes in management throughout 2020:

- Appointment of a new Deputy Director and Deputy Assistant Director for Technical Control.
- Appointment of new Secretary General.
- Appointment of new Deputy Assistant Director for Technical Standards.

The 2020 staff selection process was carried out by means of a resolution of 27 October 2020 (Official State Gazette of 3 November), by which a specific competitive examination was called to fill job vacancies at the ICAC. At the date of preparation of this Report, the Resolution of 10 February 2021, of the Undersecretariat, had been published, resolving this competitive examination by means of which six employees will join the staff with the following distribution according to the group to which they belong: 2 employees from Group A1, 3 employees from Group A2 and 1 employee from Group C1.

A major challenge facing the Human Resources Service and the Administration Service in 2020 was to respond to the demands of COVID-19 and the need to provide the necessary means and mechanisms to enable it to continue its activities in a non-classroom mode, which has meant that, despite the circumstances, the ICAC has been able to continue and even increase its level

of activity. The adaptation to the distance mode of working has been a challenge for the ICAC, achieving a historic change in the way of working since 1988, the year in which the ICAC was created by the Spanish Audit Act 19/1988 of 12 July.

In particular, in response to the lockdown measures that began in March, the ICAC has promoted the use of teleworking methods and encouraged online communication strategies for own staff and in its relations with other national and international, public and private agencies and organisations.

Full distance mode was implemented during the lockdown without any drop in productivity, owing to close coordination with the ICAC's IT department, which managed to implement technology by purchasing laptops for all staff expanding them with all the necessary software (applications) for day-to-day use on each one.

The ICAC Chairman issued a Resolution on 11 March 2020 approving measures to help strike a work-life balance in relation to COVID-19, applicable to all employees with children and elderly dependents who may be affected by the closure of educational centres or senior citizens' centres, and also employees in a situation of vulnerability. Only a few days later, the ICAC Chairman issued the Resolution of 12 March 2020 amending the second standard of the Resolution of 11 March 2020, extending the work-life balance measures to all ICAC employees.

The distance mode was generalised throughout the ICAC until 28 June 2020, when de-escalation began and the ICAC Chairman issued the Resolution of 26 June 2020 adapting measures to adapt to the new normality. The aim of this standard was to initiate the gradual de-escalation from Monday, 29 June, reporting on all measures taken at the ICAC, with full coordination between the Human Resources and the Administration departments to safeguard the health of all staff as much as possible. This resolution is based on the Resolution of the Secretary of State for Territorial Policy and Public Function of 17 June, communicated to all staff by e-mail on 18 June, and the Resolution of the Undersecretary for Economic Affairs and Digital Transformation of 18 June.

Lastly, on 18 September and in accordance with the provisions of section three of the Resolution of 26 June 2000, the General Secretariat of the Institute issued new standards relating to the on-site reincorporation of employees with children under 14 years of age in their care, who are now included in the non-prioritised group and, therefore, must work a minimum of 40% of their weekly working hours on-site.

The engagements include:

- Provision of protective resources for employees (gloves, masks, hydroalcoholic gels, etc.) and installation of information elements (posters, signs, etc.) throughout the Institute's premises.
- Study and drafting of standards for the use of common and private spaces.
- Contingency Plan exclusively for the ICAC, drawn up on 22 June by the Inprex Group within the framework of Royal Decree 463/2020 of 14 March. This Plan is binding for all ICAC employees for their activities and also external employees of public or private bodies who occasionally assist the ICAC.

Additional social services provided to employees in 2020 included the following benefits:

- The 2020 Social Action Plan for all civil servants and staff working at the ICAC.

- Annual medical check-ups, which this year included COVID-19 serological tests.

Some of the more salient voluntary training courses given to ICAC employees include English classes and training in Occupational Risk Prevention, with special reference to COVID-19, given in September and October to the heads of the Administration and General Secretariat departments.

A regulated procedure was also initiated in the second half of 2020 concerning ICAC Inventory control, culminating in the approval of the corresponding Instruction of the ICAC Chairman regulating the inventory control procedure.

Finally, the ICAC participated in the following working groups organised by the Ministry of Economic Affairs and Digital Transformation throughout 2020:

- TEMPORALITY AND EMPLOYMENT. Discussion of the problems associated with civil servants and labour workers, in particular the circumstances of their working hours, and a debate on job relations and productivity design.
- HEALTH AND SAFETY Issues relating to occupational health protection. This year, the matter was all the more important because of the pandemic.
- EQUALITY: Issues related to working conditions affecting both women and men with the aim of achieving true equality.
- OCCUPATIONAL RISKS: Regular and periodic queries on the company's engagement in risk prevention.
- SOCIAL RESPONSIBILITY Issues aimed at achieving a public administration geared towards a sustainable, responsible economic model with a full involvement of social partners.

V.3 INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

In 2020, the IT Unit continued implementing the lines of action defined and implemented in the ICAC's Digital Transformation Plan, which was drawn up in 2019 and is part of the overall strategy of the Digital Transformation Plan for the General State Administration (GSA) and its Public Bodies (PB).

ICAC's significant digital transformation in 2020 is underpinned by the achievement of the five strategic objectives that also form the backbone of the GSA's ICT Strategy and on which the Institute will continue to work intensively in 2021 and beyond. These objectives entail:

A. Increasing productivity and efficiency in the internal functioning of the ICAC, to do so:

- The so-called "Assignment to Own Means", in force since 2019, shall continue to boost the promotion and governance of ICT services.
- An annual maintenance contract for the Institute's applications and technological infrastructures has been signed and implemented.

- A project has concluded in which the network electronics were completely renewed, with numerous benefits, including LAN monitoring from the Secretary General for Digital Administration (SGAD).
- A project to install two new UPS was completed (one for each building: C/Huertas and C/Moratín).
- All ICAC employees received teleworking equipment, with each user being provided with a laptop computer.
- All ICAC users have been provided with tools to be able to work remotely and a VPN access platform based on ARU technologies was implemented for this purpose.
- Each and every ICAC user was assigned a collaborative workspace to be able to work both in person and remotely, based on the acquisition of licences for the MS-Microsoft 365 suite. In this regard, Teams has become the corporate channel for communications and meetings in 2020, both with in-house staff and with other entities, companies and public bodies.
- An e-mail migration plan to the SGAD mail service, currently provided by the Ministry of Economic Affairs and Digital Transformation, was launched in the last quarter of 2020. The migration of all ICAC mailboxes is expected to be completed in the first quarter of 2021. The domain for ICAC's e-mail accounts will then change from @icac.mineco.es to @icac.gob.es.

B. Ensuring that the **digital channel is the first and preferred medium** for auditors, audit firms, companies and citizens in general to interact with the ICAC, in which regard:

- The project to develop the new ICAC website (<http://icac.gob.es>) began in 2020 entered the production stage in early 2021. The new website provides a wide range of services and offers various digital channels through which citizens can establish digital communication with the ICAC's organisational units and services by filling in forms.
- An Assignment to Own Means was formalised in the final quarter of 2020 to implement a new e-Office for the ICAC, based on ACCEDA of the e-Government Portal (PAe), mainly with regard to the electronic file processing. This major project will not only migrate all procedures currently hosted at the ICAC Sub-Headquarters of the Ministry of Economic Affairs and Digital Transformation to the new e-Office, but will also automate all procedures included in the ICAC's Digital Transformation Plan in ACCEDA.
- The application DECLAR@ hosted in the SARA cloud and based on state-of-the-art web technologies was developed in 2020 to manage and process Forms 02 and 03 (mandatory annual declarations on the activity/reports carried out by auditors and audit firms). DECLAR@ M02 & M03 is set to be made available to users in the first half of 2021.
- The PANDORA application was developed in 2020 to automate data cross-checks of information submitted in the M02 and M03 forms with the data from the revenue files sent fortnightly by the AEAT (Spanish Tax Agency). This new application is being used to identify cases of payment, non-payment, undue payment and late payment of fees, which greatly speeds up the management of the corresponding administrative processes related to fee management.

C. Improving **efficiency in the provision of ICT services within the ICAC.**

- A user helpdesk was set up with specialised human and technical resources. The easyREDMINE tool has been implemented to manage ICT requests. This new helpdesk service constitutes a qualitative and quantitative leap in how the organisation's users are assisted. Service quality measurements were taken throughout 2020 according to the service indicators (SLAs) already set in 2019, all of which were 100% met.
- Remote control tools were implemented to streamline user incident resolution and install software/configurations in the most efficient and transparent way for users.
- The ICT unit promoted internal use of applications such as PORTAFIRMS, GEISER, NOTIFICA and ACTÚA throughout 2020.

D. Addressing **intelligent corporate knowledge, information and data management with the following actions:**

- An initial Business Intelligence (BI) prototype was introduced to facilitate systematised, predictive and evaluative analysis of the multiple data sources gleaned during ICAC Accounting and Auditing competencies, and also enable the establishment of activity and/or performance indicators, mainly focused on risk management. This BI project is particularly strategic for this Institute and its progress will be boosted with new technical and human resources.

E. Furthering progress on the corporate **security and usability strategy.**

- Turning to usability and rationalisation, the ICAC has formalised an agreement with the SGAD (under the Secretary of State for Digitalisation and Artificial Intelligence) to carry out a major "Plan for migrating ICAC infrastructures to the SARA cloud". On the basis of this agreement, efforts have been made during 2020 on the various lines of migration defined in the Plan.

Some examples of early successes following the completion of several of these migration lines include the SARA cloud-based hosting for the new ICAC website, DECLAR@ M02 and M03, and even the DES, PRE and PRO environments available for hosting all ICAC servers.

The migration of services, applications and databases to these environments will continue in 2021. The end result of this great Migration Plan will set a benchmark for public administrations as a model for rationalising public spending and inter-agency collaboration. It will also provide the ICAC with modern and highly secure facilities in terms of technology and cybersecurity.

- From the point of view of information security, a project was developed in 2020 for the acquisition and configuration of the SEALPATH product at all ICAC workstations. SEALPATH lets managing units encrypt information (documents and e-mails) considered to be "sensitive".

The achievements described above have contributed to a very significant improvement in the ICAC's activities, both internal management activities and those relating to the Institute's interaction with other public and private bodies and entities.

V.4 ECONOMIC AND FINANCIAL MANAGEMENT

All ICAC activities are 100% self-funded. The main source of funding is the revenue obtained through two types of fees managed and collected by the Audit Act, which are regulated in Title IV thereof:

- a) The ICAC fee for the control and supervision of the audit activity (art. 87): The taxable event of this fee is the exercise of the ICAC's powers of control over the auditing of accounts by the ICAC in relation to the issue of audit reports. Its regulation is implemented in RD 181/2003, adapted to current needs. The amount of the fee is calculated on the basis of the volume of work declared by statutory auditors and audit firms, as a logical correlate to the evolution of the ICAC's workload in the supervisions to be carried out in accordance with this volume.
- b) The ICAC fee for the issue of certificates or documents at the request of a party and for registrations and annotations in the Registry of Statutory Auditors (art. 88): the taxable event of this fee is the exercise of the ICAC's powers in relation to the issue of certificates or documents at the request of a party and to registrations and annotations in the Registry of Statutory Auditors. The system of self-assessment and payment of this fee is implemented by Royal Decree 73/2016 of 19 February, which implements the system of self-assessment and payment of the ICAC fee for the issuance of certificates or documents at the request of a party, and for registrations and entries in the Official Registry of Auditors.

ICAC's 2020 revenue amounted to 8,166,510.15 versus €8,975,163.15 in 2019, broken down as follows:

Revenue budget execution

Chapter	Revenue budget execution 2020	€	%
III	Fees, public sector prices and others	8,165,117.69	99.98
VIII	Financial assets	1,392.46	0.02
TOTAL		8,166,510.15	100.00

Payment of these fees was also checked in 2020.

In this regard, it is worth highlighting the verifications of the returns made by the taxpayers of the tax for the control and supervision of the activity of the auditing of accounts, where the corresponding claims have been made, where appropriate, for the payment due and the fine that may correspond for non-compliance with the aforementioned article, as well as the settlement of surcharges for late payment.

FEE (article 87 Audit Act): CROSSOVER FORMS 02/03	2020	2019
Settlement proposals	477	365
Amount	131,811.13 €	92,100.25 €
Archived settlement proposals	42	48
Amount	8,302.53 €	9,789.12 €
Provisional settlements	429	317
Amount	130,598.70 €	90,790.62 €
Revenue received from proposals or settlements	291	227
Incoming amount	77,898.42 €	61,341.02 €
Penalties for non-payment of the fee:	429	163
Amount	58,205.91 €	17,582.21 €
One-off surcharge for late payment (art. 27 Tax Act)		
Number of surcharges	57	319
Amount	2,611.58 €	11,547.88 €

Expenditure budget execution.

Expenditure recorded in 2020 amounted to a total of €43,474,461.91, broken down as follows:

CHAPTER	Expenditure budget execution 2020	€	%
I	Personnel expenses	3,566,224.43	8.20
II	Current expenditure on goods and services	1,289,501.71	2.96
III	Finance Expenses	0	0
IV	Current transfers	38,523,414.07	88.62
VI	Actual investments	95,321.70	0.22
VIII	Financial assets	0	0
TOTAL		43,474,461.91	100.00

With regard to the implementation of the 2020 expenditure budget, the amount included in chapter IV "Current Transfers" is particularly noteworthy. In the 2020 financial statements, the Institute recorded a transfer of €38 million (surplus) to the Public Treasury, thus complying with the Order of the Minister of Finance which required the payment of all liquid assets that were not necessary for the exercise of its activity. This order is based on Royal Decree-Law 11/2020 of 31 March, which adopts urgent complementary measures in the social and economic sphere to deal with COVID-19.

Special mention should be made of the following disbursements, which are described in the accounting and audit sections of this report, respectively, due to their importance at the international level and which demonstrate the ICAC's presence in international forums:

- 2020 quota as a member of the International Forum of Independent Audit Regulators (IFIAR): 2,080,913 Japanese yen, which at the time of payment amounted to €16,703.43.
- 2020 quota to the European Financial Reporting Advisory Group (EFRAG): €75,000.

In addition, the ICAC has been working during 2020 on the development of a procedure for the processing refunds for undue income, where it is expected that during the financial year 2021, not only the requests initiated at the request of a party will be refunded, as to date, but the procedure will be initiated so that the ICAC will refund all undue income ex officio, i.e. without prior request from the interested party. To achieve this objective, the ICAC Chair approved an Instruction on undue revenue procedures in December 2020.

Procurement.

The procurement service has continued to process both new contracts and extensions to existing contracts for all services necessary for the operation of the facilities, such as electricity supply, lift maintenance services, building maintenance, maintenance of HVAC systems, and tracking and execution of contracts centralised by the Directorate General for the Rationalisation and Centralisation of Public Procurement (security, cleaning and postal services).

Similarly, in order to provide services to the IT Unit, as stated in the section of the Annual Report, contracts were awarded and processed for the maintenance of the ICAC's computer applications; development services for the ICAC's web portal; supply of a document encryption solution; purchase or renewal of various computer licences (Office, antivirus, VPN, SABI-ORBIS databases); purchase of 55 laptops and various computer equipment; renewal of network electronics; and the supply of an uninterruptible power supply system.

A number of assistance contracts have also been processed for various ICAC services: assistance service for the planning, management and performance of work related to the administrative procedure for the collection of non-payment of the "fee for the control and supervision of the audit activity"; assistance services to the ICAC Registry Service; assistance and advisory services in accounting, budgetary and taxation matters; assistance service to the Secretariat of the Subdirector General for Technical Control; assistance services in the management of documentation and data from the engagements of inspections; investigations or verifications of auditors and audit firms; technical assistance service for the review and cataloguing of documentation related to the Registry of Statutory Auditors; assistance services in relation to the processing of tax procedures generated in application of the regulations on the payment of fees related to the Registry of Statutory Auditors; occupational risk prevention services; and various translations.

Assistance contracts have continued to be processed with companies and auditors' representative bodies, through the performance of instrumental tasks in inspections, investigations or checks of auditors and audit firms, carried out by the ICAC in accordance with article 55 of the Audit Act.

Lastly, the ICAC's Procurement Service has entered into certain specific contracts, including the layout service for electronic publishing of publications and documents (BOICAC and Registry of Statutory Auditors Yearbook, IFRS, Reports, Reports), English classes for ICAC staff, a contract with IFAC for reproduction rights for works during 2020, minor ICAC works) and payment of municipal taxes, as well as the preparation and presentation of form 347 for the annual declaration of transactions with third parties.

In addition to the aforementioned contracts, following agreements, already initiated in 2019 or previous years, remained valid in 2020:

- Agreement between the ICAC and IGAE regarding Sorolla2 and Canoa system support and hosting.
- Agreement between the ICAC and ASEPUC for accounting and auditing research and dissemination.

Finally, it should be noted that support was provided in 2020 in relation to all the activities initiated and explained in the ICT section of this report (migration of the ICAC's applications to the SGAD's SARA cloud, assignments to own resources, among others), as well as the processing of the payment of voluntary contributions to the international organisations EFRAG and IFIAR, which were processed and managed by this Procurement Service.

V.5 RESEARCH AND DISSEMINATION ACTIVITIES

The ICAC's activities include the maintenance and publication of national and foreign documentation of interest in accounting, financial and auditing matters. In particular, the Institute's Official Gazette (BOICAC) is published quarterly, where, in addition to complying with the provisions of the Audit Act and other standards regulating the ICAC's activity, the publications addresses relevant aspect in accounting and auditing matters, and also the queries addressed to, and answered by the ICAC, which, due to the interest in their disclosure, is advisable to publish in the Gazette so that they can be studied in general. Four BOICAC were published in 2020 and are posted in full on the ICAC's website.

It is worth recalling ICAC Resolution of 2 July 2019, transforming the BOICAC into a free digital publication on the website, and ceasing to sell and publish in printed format. Before that, in 2018, and in order to provide easier access to the titles published in paper by this organisation and which were out of print, the text was made available in reading mode on its website. As all publications are online, the Yearbook was not published as the list of each of the auditors and their status is updated on the Institute's website in the corresponding section of the Registry of Statutory Auditors.

The following publications published in 2020 are also available on the ICAC website:

- Access to the International Financial Reporting Standards adopted by the European Union and previously published in its Official Journal (OJEU). This system is a new feature to what had been done in publications following the approval of the ICAC Resolution of 8 January 2020, which determines the cessation of the sale of publications published by this Institute in paper format and establishes their publication in electronic format on the Institute's own website.
- The consolidated version can be accessed from the Institute's website, while the ICAC's publications service continues to publish (what was previously published in paper format) in an isolated and printable format, only the pages that vary according to the approved standard in such a way that they can be easily replaced in the folders held by previous subscribers.
- The 2019 State of Auditing in Spain Report. (BOICAC No. 122).
- The Collaboration Agreement signed in 2015 between the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) and the Agencia Estatal Boletín Oficial del Estado (AEBOE), for

the co-publication of the “CÓDIGO DE CONTABILIDAD FINANCIERA Y DE SOCIEDADES” (CODE OF FINANCIAL AND CORPORATE ACCOUNTING), will continue in 2020. The same applies to the “AUDITING CODE” whose agreement was signed in 2016.

- Both titles are available on AEBOE website with free and open access, and are updated upon publication of any standard that the ICAC deems to be an essential part of accounting or auditing regulations.
- Additionally, in the exercise of the powers attributed in relation to the dissemination of the matters referred to in the competencies of this Institute and for the better exercise of the functions attributed to it, the agreement signed in 2019 with ASEPUC for the preparation of Studies on accounting and auditing matters, has enabled the publication in 2020 of the following studies: “Key audit issues in Spain: characteristics and impact on audit quality” and “The effects of the Regulations on auditor rotation on the duration of contracts with Non-Public Interest Entities (PIEs)”.

In summary, the specific engagements carried out during the 2020 financial year, in terms of titles published with respect to the previous year, were as follows:

PUBLICATIONS	2019	2020
BOICAC	4	4
Other publications	3	4
Registry of Statutory Auditors yearbook	1	0

The following research and dissemination engagements were carried out in the financial reporting area in 2020:

- Participation with a study by the University of Munich on the accounting standardisation activity and its possible effects on the regulated economic reality.
- Collaboration with other ARC-member European jurisdictions by responding to queries on various aspects of accounting regulation in Spain.
- Updating and subsequent revision of the text for disclosure and publication of International Financial Reporting Standards as adopted by the European Union.
- In the field of performance and promotion of research, study, documentation, dissemination and publication activities for developing and improving accounting standardisation.
- Of particular note is the assignment and receipt of two reports commissioned to the Spanish Association of University Accounting Professors (ASEPUC) on the accounting treatment of crypto-assets and on variable and contingent payments.

VI PUBLIC COMMUNICATIONS

VI.1 COMPLAINTS AND SUGGESTIONS

In addition to the rights that citizens have under Article 35 of the Spanish Public Sector Act (Law 40/2015 of 1 October) in their relations with the Administration, citizens and users of auditing services may collaborate in improving the provision of the services offered by the ICAC by submitting complaints and suggestions regarding the ICAC's engagement on the complaints and suggestions forms set up for this purpose at the ICAC's headquarters, at any of the general registers of the General State Administration or by selecting the option "Complaints and Suggestions" at <http://icac.gob.es/icac/contacto>. One suggestion and three complaints were processed and resolved in 2020.

VI.2 CLAIMS

No claims were lodged in relation to the ICAC's charter of services in 2020, the resolution of which is the responsibility of the ICAC's Secretary General's Office.

Complaints concerning this charter of services should be addressed to the General Secretariat. Whenever a breach of the commitments made in the Charter is found to have occurred, the Secretary General shall inform the person concerned in writing of the circumstances leading to such breach.

VI.3 TRANSPARENCY PORTAL

The Spanish Transparency, Access to Public Information and Good Governance Act (Law 19/2013 of 9 December) seeks to expand and strengthen the transparency of government activity, regulate and guarantee the right of access to information relating to that activity and establish the obligations of good governance to be fulfilled by public officials.

Pursuant thereto, in 2020, the General Secretariat has processed and resolved 11 requests concerning activities subject to Administrative Law with a view to guaranteeing transparency in its activity and the citizens' right of access to public information.

VI.4 QUERIES AND REPORTS ISSUED

The ICAC General Secretariat receives queries and requests for mandatory reports from other public administration bodies and public institutions. The nature of the content of these queries and reports is diverse, ranging from legal, statistical or informative matters, and they can also be sent by the Courts or Public Prosecutor's Offices.

Similarly, queries can be sent by citizens requesting information on certain matters such as occupational risk prevention, quality in Public Administrations, CSR, procedure in the "SIA" tool, General Register of Deposits, reduction of administrative burdens, inspection of services, etc.

There were 21 queries issued in 2020. In addition, over 1,000 queries were answered by e-mail regarding the Registry of Statutory Auditors and how fees collected by the ICAC were managed.

