



Control Plan for the audit activity 2022





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EXECUTIVE SUMMARY

The Accounting and Auditing Institute (ICAC), an Autonomous Administrative Body attached to the Ministry of Economic Affairs and Digital Transformation, is the authority responsible for public supervision of the audit activity. In the exercise of this responsibility, and in accordance with Law on Auditing 22/2015, of July 20, as it has been the case in previous years, the ICAC publishes on its website (www.icac.gob.es) the control activities that it has planned to carry out in 2022 in its two regulated modalities: investigations and inspections.

- With regard to inspections, according to the ICAC resources available, it is estimated that at least 5 direct inspections will be completed in 2022, corresponding to one of the largest auditing companies that audit public interest entities, and 4 auditing companies of medium size. The start of two inspections of large-scale auditing companies that audit public interest entities and the start of at least 3 direct inspections of medium-sized auditing companies that audit public interest entities, or are considered relevant for any other circumstance, deduced from a risk-based analysis.

In addition, the completion of 10 inspections of auditing companies and auditors that do not audit public interest entities is expected.

- On the other hand, with regard to investigations, it is estimated that at least 270 actions will be carried out, which will focus, in line with the actions of the last two years, on verifying

compliance with the obligation to train auditors in a practising situation; as well as the verification of the completion and publication of the annual transparency reports by the auditing companies and auditors that audit public interest entities.

Audits will be subject to investigation in which risk indicators of insufficiency or inadequacy of means for their performance are detected and, as a novelty, particularly in cases of rotation of auditing companies in engagements from public interest entities in which a reduction in fees with respect to the previous contract is detected.

Likewise, the necessary investigative actions will be initiated if possible indications of infringement are deduced from the result of the analysis of the complaints received, the number of which is estimated according to the experience of previous years.

The action of the ICAC will be aimed at fulfilling the objectives included in section III of this plan, defined in a long-term temporary approach, based on the powers attributed to this Institute by current regulations, with the aim of reinforcing trust in financial economic information, by strengthening the quality of audits.



Index

-
- 01** Introduction
-
- 02** Object and regulatory framework of the control of the audit activity
-
- 03** Objectives of the Control Plan
-
- 04** Ambit and scope
-
- 05** Forecasts of the Control Plan for the year 2022
-
- 06** Means and technical resources employed



1. Introduction

1. INTRODUCTION

The Accounting and Auditing Institute (ICAC), an Autonomous Administrative Body attached to the Ministry of Economic Affairs and Digital Transformation, is the authority responsible, among other functions, for the public supervision of the audit activity.

The control of the audit activity, in accordance with the provisions of article 52 of the Law on Auditing approved by Law 22/2015, of July 20 (hereinafter, LAC), consists of carrying out inspections, investigations, and checks carried out ex officio by the ICAC, in accordance with available resources.

This action plan, in relation to the inspections and investigations to be carried out by the ICAC, is published in compliance with the provisions of article 61 of the LAC on

transparency and publicity, and article 91 of the Regulations of the Law on Auditing, approved by Royal Decree 2/2021, of January 12 (hereinafter, RLAC).

As in previous years, the Plan does not include all the planned activity of the ICAC, since it does not include the part of the tasks that it performs in relation to the aspects included in the audit supervisory function referring to access to the exercise of the activity, to the Official Register of Auditors, to the adoption of auditing standards, to sanctioning actions, to the resolution of queries, or to the monitoring or evolution of the audit market, among others.

2. Object and regulatory framework of the control of the account audit activity

2. OBJECT AND REGULATORY FRAMEWORK OF THE CONTROL OF THE ACCOUNT AUDIT ACTIVITY

Article 46 of the LAC attributes to the ICAC, among other responsibilities, that referring to the system of investigations and inspections, regulated in articles 53 and following of the LAC, in articles 90 to 104 of the RLAC, and in article 26 of the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements for the legal audit of public interest entities (hereinafter, RUE).

The inspections are review actions to the auditors, carried out on a regular basis, which have the purpose of evaluating the effectiveness of their internal quality control system, by verifying the quality control policies and procedures (review of policies and procedures of signature) and the review of the audit work (review of the audit procedures applied in the audit work/engagements). The works are selected with risk criteria, in order to assess compliance with the regulations governing the audit activity.

On the other hand, the purpose of the investigations is certain audit work (audit engagements) or specific aspects of the audit activity, in order to determine facts or circumstances that constitute indications of non-compliance with the regulations governing the audit activity. Investigations are carried out ex officio and are initiated when, after analysing information obtained from various sources, it is concluded that there are possible indications of a possible non-prescribed infraction.

The inspections that are carried out with respect to the auditors and auditing companies that carry out audits of public interest entities must cover the aspects that at least are contemplated in article 26.6 of the RUE.

For these purposes, the inspections verify compliance by the auditors with the provisions of the Resolution of October 26, 2011 of the Accounting and Auditing Institute, by which the Internal Quality Control Standard for auditors and auditing companies is published, whose objective is that the auditing companies establish and maintain a quality control system that provides them with reasonable assurance that, on the one hand, the companies and their personnel comply with the applicable standards and regulatory requirements; and on the other hand, the reports issued by the auditing company or by the partners of the assignments are appropriate to the circumstances, in accordance with the regulations governing the auditing activity.

However, there are new regulations regarding the internal organization of auditors and auditing companies. In the first place, the second final provision of the RLAC establishes that the provisions of chapter IV of title II, in article 72.2 and in article 87 of the regulation will enter into force on July 1, 2022 and will be applicable to audit work, on annual accounts corresponding to financial years closed after that date.

On the other hand, the Resolution of February 2, 2022, of the Accounting and Auditing Institute, by which the internal quality control standards are submitted to public information, "Quality management in auditing companies that perform audits of financial statements" (NIGC1-ES) and "Quality Reviews of Engagements" (NIGC2-ES), resulting from the adaptation of International Quality Management Standards 1 and 2, respectively; as well as the Technical Auditing Standard "Quality Management of an Audit of Financial Statements" (ISA-ES 220 (Revised)), resulting from the adaptation of the International Standard on Auditing ISA 220 (Revised). This Resolution provides for the entry into force of these regulations as follows:

- On January 1, 2023, the quality management systems of the auditors and auditing companies must be designed and implemented in accordance with the requirements established in the International Quality Management Standard 1 "Quality Management in the auditing companies that carry out audits of financial statements", adapted for its application in Spain as NIGC1-ES. The evaluation of the quality management system in the way required in sections 53-54 of said standard will be carried out within one year from that date.
- The International Quality Management Standard 2 "Quality reviews of financial statement audit engagements", adapted for application in Spain as ISQM2-ES, will be applicable to audit work on financial statements corresponding to fiscal years beginning on or after January 1, 2023.
- The Technical Auditing Standard "Quality Management of an Audit of Financial Statements", resulting from the adaptation of the International Standard on Auditing 220R "Quality Management of an Audit of Financial Statements", as ISA-ES 220 (Revised), will be applicable to auditing on financial statements corresponding to financial years beginning on or after January 1, 2023.
- In any case, the aforementioned standards will be applicable to auditing contracted or commissioned as of January 1, 2024, regardless of the financial years to which the financial statements object of the work refer.

In addition, in relation to these standards, to facilitate the progressive updating of the internal organization of auditors and auditing companies and a gradual transition to the new provisions on internal organization, in February 2022 a "Communication



of supervisory expectations regarding the entry into force of the provisions of the audit regulations on the internal organization of the auditors” whose content can be consulted on the ICAC website.

Consequently, the inspection actions carried out in 2022 will also have the purpose of verifying the effective implementation of the aforementioned aspects of the RLAC, and the process of adapting the new quality standards for their effective implementation on January 1, 2023.

The inspection reports materialize the result of the actions and, among other aspects, detail the deficiencies detected in respect of which the ICAC carries out, where appropriate,

improvement requirements, giving itself a deadline for the implementation of the improvements that are necessary for purposes that, after this maximum implementation period, said deficiencies do not recur.

Without prejudice to the eminent purpose of improving the quality of the performance of the audits, if in the inspections indications of infraction are obtained, the disciplinary regime contained in the LAC is applicable.



3. Objectives of the Control Plan

3. OBJECTIVES OF THE CONTROL PLAN

As in the previous year, it has been decided to refer the action plan to the ICAC's action strategy defined in accordance with the powers attributed to this Institute by current regulations.

It should be borne in mind that both the LAC and the European regulations are intended to strengthen confidence in financial economic information, based on improving the quality of audits. To this end, its objectives are, among others, to increase trust and improve transparency in the role of the auditor, reinforce the independence of auditors, and open up and stimulate the audit market.

The principle of proactive responsibility that is imposed on auditors deserves special attention, by requiring them to have a solid and effective internal organization, in order to guarantee compliance with their legal obligations in order to satisfy the public interest function entrusted to them. In particular, this organization must have policies and procedures aimed at preventing and responding to any threat to independence, and guaranteeing the quality, integrity and rigorous nature of the audit.

Thus, the ICAC's action must be aimed at addressing the following objectives defined in a long-term temporary approach, whose determination will be conditioned by the availability of sufficient and necessary resources, with the ultimate goal of protecting the public interest attributed and represented by users of economic-financial information, including investors:

- Priority attention to quality improvement through preventive and regular supervision, through timely and recurring inspections of all auditors of public interest entities (hereinafter, PIE), and progressive and periodic inspections of the other auditors, with the ultimate goal of jointly improving the quality of audits in Spain

- Promoting trust and transparency in those who carry out the audits and reinforcing the value of the audit, so that the commitment and role of the auditors (particularly those who audit PIEs) can be better understood while at the same time facilitating and better support decision-making by users, favouring a better functioning of the markets.
- Promotion of competitiveness in the audit market, in such a way that it allows improving the methodologies of all auditors, and therefore, reducing the gap between auditors and facilitating the elimination of growth barriers for smaller auditors.

The achievement of these objectives allows compliance with the entrusted public interest, reinforcing the internal and international confidence that could be had on the reliability and quality of the audits and of the economic-financial information audited in Spain, which, ultimately, affects the image and solvency of the functioning of its economy. For this, it is important to carry out the inspections with the periodicity established by the regulations and to shorten the cycle of inspections of larger auditing companies, due to the greater impact of the audits they carry out. In this sense, the action plan for this year is configured bearing in mind the time focus of said purpose and strategy, but subject to the availability of resources.



4. Ambit and scope

4. AMBIT AND SCOPE

A) Auditors and audited entities.

According to the latest information available, the number of auditors registered in the Official Register of Auditors of the Accounting and Auditing Institute amounts to 3.500, with the following detail:

AUDITOR TYPE	Number
Individual auditors	2.085
Auditing companies	1.415
TOTAL	3.500

According to the declarations presented in October 2021 by the auditors, the number of auditors who declared invoicing for account audit work presents the following detail:

	Individual auditors	Auditing companies	Total
Number of auditors who declare invoicing for audit work	782	1.175	1.957

According to the latest available information, the number of public interest entities in Spain amounts to approximately 1,462 entities, and the number of auditors of public interest entities approximately 81.

B) Regulation of the annual audit activity control plan.

Article 91 of the RLAC, develops the criteria for the annual preparation of a control plan for the audit activity, in accordance with the technical and human resources available, and based on the following criteria:

- (a) Results or other information resulting from the actions of the inspections.
- (b) Objective data resulting from the information provided to the ICAC by the account auditors and auditing companies.
- (c) Data obtained through complaints or any other type of information that the Institute may know.

In relation to the Results or other information resulting from the actions of the inspections, the objectives and the

execution process of the inspections must be taken into account. In this sense, all auditors, based on a risk analysis, must be subjected to inspections with a certain regularity set by the applicable regulations.

With regard to the objective data resulting from the information provided to the ICAC by the auditors and auditing companies, this plan takes into account the information sent by the auditors, analysing, in practice, certain indicators of possible inconsistencies that could represent a risk of possible deficiencies.

Finally, the treatment of the information obtained through complaints or any other type of information is also taken into account, and what is indicated in article 116 of the RLAC, in relation to the public complaint, is taken into consideration.



5. Forecasts of the Control Plan for the year 2022

5. FORECASTS OF THE CONTROL PLAN FOR THE YEAR 2022

A) Approach.

1. INSPECTIONS.

The inspections consist of a regular evaluation, at least in the periodicity established by law, of the internal quality control systems of the auditors, and must include the evaluation of the internal quality control policies and procedures of the auditors and the review of specific audit work or parts thereof. Article 26 of the RUE requires, as a minimum:

- The evaluation of the design of the internal quality control system of the statutory auditor or audit company;
- The adequate verification of the conformity of the procedures and review of the audit proceedings of the PIEs, in order to verify the effectiveness of the internal quality control system, for which the selection of the aforementioned audit proceedings must be carried out on the basis of an analysis of the risk that an audit is not properly carried out;
- The evaluation of the content of the last annual transparency report published by the auditors.

To this end, the aforementioned Regulation requires that the following internal quality control policies and procedures of the auditors be reviewed during the inspections:

- Compliance with applicable auditing and quality control standards, ethical requirements and independence.
- The quantity and quality of the resources used, as well as the fulfilment of the continuous training requirements.
- Compliance with the requirements of article 4 of said Regulation regarding audit fees.
- The need to deepen the inspections, in the part related to the number of works, is considered a key factor in the overall improvement of the internal quality control systems of the auditors and the protection of the public interest.

On the other hand, and with the aim of maximizing the efficiency in the use of resources and the effectiveness of actions, the regulation establishes an inspection system that combines a minimum frequency based on which inspections must be carried out on auditors (which depends on the profile of the companies

they audit), with the selection of auditors to be inspected based on a risk analysis. During 2022, the ICAC will continue to implement this risk-based supervision model, which has already begun with the publication of the Economic-Financial Bulletin to support supervision based on audit risks and with the provision of tools that allow the exploitation of the information and the definition of risk indicators.

In this sense, as the preamble of the LAC points out, the special prevalence and interest required by the audit work of public interest entities -due to its greater relevance and economic and financial impact-, justifies greater specialization, attention and dedication on the part of the supervisor, and it requires from him the proper ordering and efficient and effective use of the available means for its adequate fulfilment. For this reason, and as has been defined in the strategy to be followed, it is considered a priority to allocate the main part of the resources available by the Sub-directorate General for Technical Control to carrying out inspections of auditors who audit PIEs, due to their greater economic relevance, transcendence for the public interest and, in particular, for a better protection of users and investors and, consequently, for the proper functioning of the markets.

Additionally, the ICAC will also allocate resources in 2022 to carry out inspections of those account auditors and audit companies that audit entities other than those of public interest, with the aim of improving the quality of these auditors as well, and, in this way, contribute to the global improvement of the quality of the auditing sector in Spain, in accordance with the defined strategy.

As already indicated, on the occasion of the entry into force of the new Regulations of the Law on Auditing, the inspections will be used to promote the process of implementing the new internal organization requirements and carrying out audit work. This will require a continuous dialogue with the sector to facilitate the application of the concept of "proportionality", to specify the effective implementation mechanisms, and to clarify how the requirements should be adapted to the different realities and circumstances of the auditors.



2. INVESTIGATIONS.

Investigations are carried out ex officio and are initiated when, after analysing information obtained from various sources, it is concluded that there are possible indications of a possible non-prescribed infraction. An investigation action plan is proposed, in accordance with the provisions of the RLAC, mainly based on actions derived from risk factors resulting from the analysis of the information available by the ICAC, including that which could be obtained from the inspections carried out, as well as, taking into account information from third parties,

mainly from complaints, estimated in accordance with the experience of previous years, and reasoned requests from other bodies of the Public Administration or entity supervisors.

The scope of the investigations will be that of specific audit works, parts or specific aspects in relation to said works, as well as specific aspects of the audit activity to be reported to the ICAC.

B) Estimate of the actions to be carried out in the 2022 financial year.

It is estimated that at least 285 actions will be completed in 2022, with the following details:

TYPE OF ACTION		Number of actions
Inspections	PIE Auditors	5
	Non-PIE Auditors	10
TOTAL INSPECTIONS		15
TOTAL INVESTIGATIONS		270
TOTAL ACTIONS		285

The 15 inspection actions correspond to the estimate of completion in 2022 of the inspection, (with regard to PIE auditors), of a large auditing company that audits public interest entities and 4 medium-sized entities. The remaining 10

inspections correspond to auditors and auditing companies that do not audit public interest entities.

The investigations that are planned to be carried out have the following breakdown:

INVESTIGATIONS	Number of actions
Complaints	40
Continuing Education	150
Completion and publication of transparency reports	60
Audit work	20
TOTAL	270

Of the above it should be noted:

- It is estimated that, based on the experience of previous years, approximately 40 actions to analyse complaints or investigations derived from complaints will be carried out, given that in recent years there has been a reduction in the number of complaints received
- It is planned to carry out 150 ex officio verifications of compliance with the obligation of continuous training, in the indicated period.
- Likewise, it is planned to carry out 60 ex officio actions on the completion and publication of transparency reports, without including in the scope of said actions the evaluation of the content of said reports by contracting them with the inspection results; and
- Lastly, it is estimated that 20 actions will be carried out on the quality of the audit work that is selected in accordance with risk criteria of insufficient or inadequate dedication of means and time proportional to the complexity and nature of the audited entity.

As a notable novelty for 2022, the opening of a new line of investigation actions in audit work of public interest entities is planned, in which the main risk indicators used are the change of auditor, and the reduction of audit fees, with respect to the previous auditor.

On the other hand, and as in previous years, it is the objective of the ICAC in its control actions to provide in 2022 the greatest possible dedication to coordination with the supervisory authorities of the EU (through, fundamentally, the Subgroup of Inspections of the Committee of European Auditing Oversight Bodies (CEAOB) and the colleges of competent authorities created for certain auditing companies, as well as with the International Forum of Independent Audit Regulators (IFIAR), to the extent in that it comes to generate a positive effect in strengthening audit supervision (and its consistency with international supervisory authorities), and consequently, in the audited financial economic information.

In this regard, within the CEAOB a database has been developed with the deficiencies detected by the European supervisors in the inspections of the largest networks of European auditing companies, with the aim of maintaining a dialogue with the European representatives of said networks to identify the causes of said deficiencies and promote the improvement of the internal control systems of the local auditing companies and, therefore, the quality of the accounts audit work.

Likewise, the ICAC participates in the national Colleges of Competent Supervisory Authorities of the Member States of the EU, created to coordinate the supervision of the largest European networks of auditing companies, in which those responsible for the European networks are exposed to the main deficiencies detected in the inspections and initiatives are adopted by said networks to improve the quality of the audits carried out by the auditing companies that are members of said networks.

Presence in international forums is considered highly relevant, as an effective and operational mechanism for the exchange of information, which contributes to a greater solidity of audit supervision in Spain, which in turn leads to an improvement in the quality of audits and, consequently, of the audited information and in a better protection of the interested parties in their decision-making process in Spain. However, the degree of involvement is affected by the resources that are available and by the defined strategy.



6. Means and technical resources employed

6. MEANS AND TECHNICAL RESOURCES EMPLOYED

As in previous years, the means and resources that will be used to carry out the supervision activities will be mainly composed of those of the ICAC (material and human means), without renouncing the possible use of other external resources that the regulations allow ascribing to the actions of the ICAC.

Special attention will be paid to the process of renewal of the staff that is taking place and to the increase in technological capacities that allow improving the depth and efficiency of the actions.

