



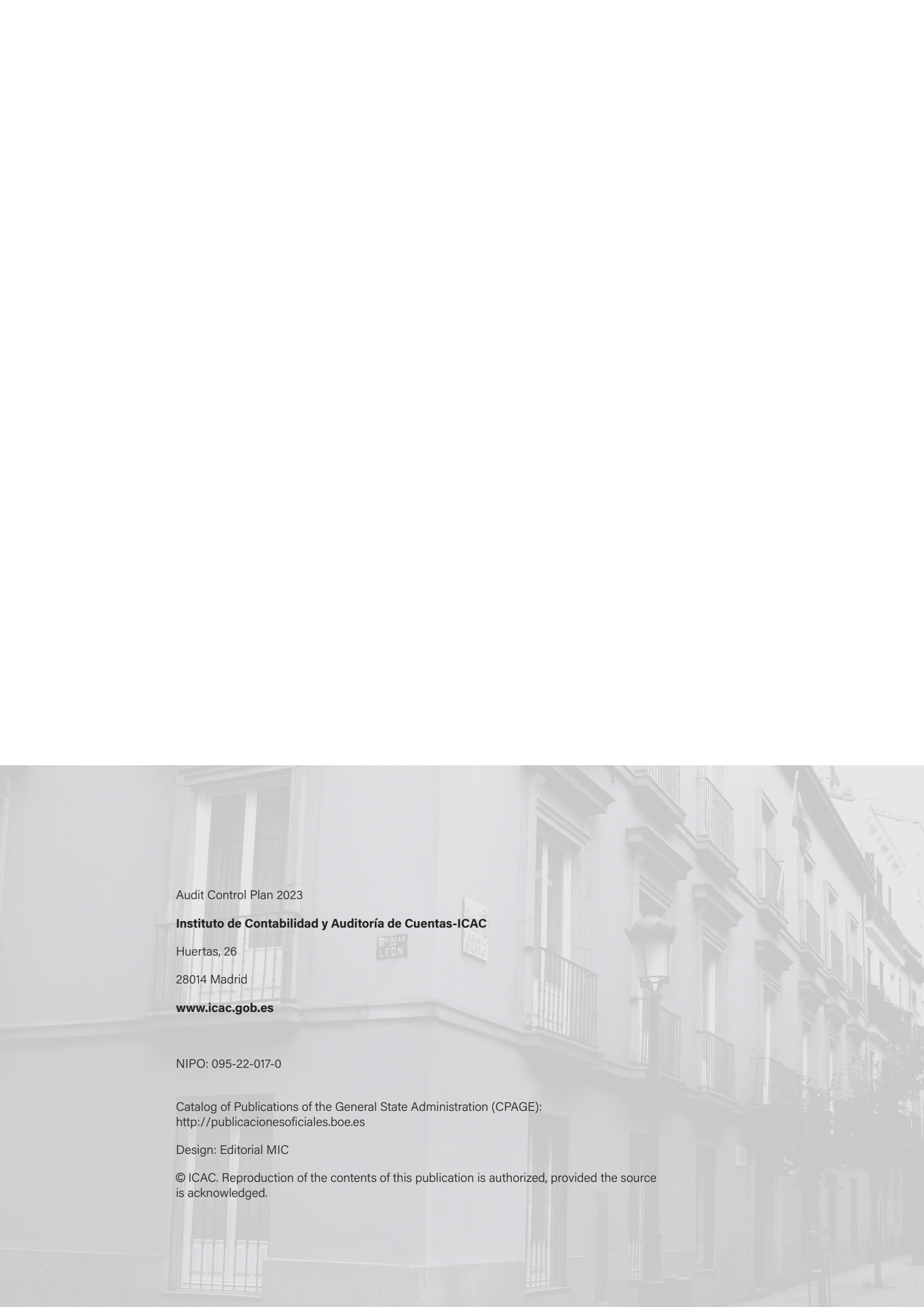
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Audit Control Plan

2023

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Instituto de Contabilidad y Auditoría de Cuentas-ICAC

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Executive summary

The Spanish Accounting and Auditing Institute, an administrative Autonomous Body attached to the Ministry of Economic Affairs and Digital Transformation, is the authority responsible for the public supervision of the audit activity. In the exercise of this responsibility, and in accordance with Law 22/2015, of 20 July, on Auditing, as has been the case in previous years, ICAC publishes on its website (www.icac.gob.es) the control activities that it has planned to carry out in 2023 in its three regulated modalities: investigations, verifications, and inspections.

- With regard to **inspections**, in accordance with ICAC's available resources, it is estimated that at least five inspections of auditors who audit public interest entities will be completed in 2023, corresponding to two of the largest and three medium-sized audit firms. It is also planned to start an inspection of a large audit firm that audits public interest entities and at least three direct inspections of medium-sized audit firms that audit public interest entities or are considered relevant for any other circumstance deduced from a risk-based analysis.

In addition, 10 inspections of audit firms and auditors that do not audit public interest entities are foreseen.

- On the other hand, with regard to **investigations and verifications**, it is estimated that at least 270 actions will be carried out, which will focus, in line with the actions of the last two fiscal years, on the examination of audit engagements in which there are quality risk indicators, on the analysis of complaints received, in the verification of compliance with the obligation to train account auditors in their position as practicing auditors, and in the verification of the completion and publication of the annual transparency reports by the auditing companies and account auditors who audit public interest entities. These actions will be carried out with the assistance of the representative bodies of statutory auditors.

During this fiscal year, continuity will be given to a line of action initiated in 2022 consisting of the investigation of audit work in which indicators of risk of insufficient or inadequate means for its performance are detected, **particularly in cases of rotation of audit firms in engagements of public interest entities in which a reduction of fees concerning the previous contract is detected.**

Likewise, the necessary investigative actions will be initiated if the analysis results of the complaints received reveal possible indications of infringements, the number of which is estimated based on experience in previous years.

ICAC's actions will be aimed at fulfilling the objectives included in section III of this plan, defined in a long-term approach, based on the competencies attributed to ICAC by current legislation, with the aim of reinforcing confidence in economic and financial information by strengthening the quality of audits.

1 Introduction

The Spanish Accounting and Auditing Institute (ICAC), an Autonomous Body of an administrative nature attached to the Ministry of Economic Affairs and Digital Transformation, is the authority responsible, among other functions, for the public supervision of the auditing of accounts.

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, 2015 (from now on, LAC), consists of carrying out inspections, investigations, and checks performed ex officio by the ICAC, in accordance with the 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 Law on Audit Regulation, approved by Royal Decree 2/2021, of 12 January (from now on, RLAC).

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

2 Purpose and regulatory framework of the control of the audit activity

Article 46 of the LAC attributes to ICAC, among other responsibilities, the one referred 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 article 26 of Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements for the statutory audit of public interest entities (hereinafter, RUE).

Inspections are auditors' review actions, performed regularly, which are intended to assess the effectiveness of their internal quality control system by verifying quality control policies and procedures (review firm policies and procedures) and review of audit work (review of audit procedures applied in audit work/engagements). The work is selected based on risk criteria, to assess compliance with the audit regulations.

On the other hand, the **investigations** are aimed at certain auditing work (audit engagements) or specific aspects of the auditing activity, with the purpose of determining facts or circumstances that constitute indications of non-compliance with the audit regulations. Investigations are carried out ex officio and are initiated when, after analyzing information obtained from various sources, it is concluded that there are possible indications of a possible infringement that is not time-barred.

Finally, **verifications** are actions to determine facts or circumstances that have come to light by any means and that could cause an agreement to initiate an inspection or investigation or, as the case may be, an agreement to initiate a sanctioning proceeding. Due to their similarity, they are statistically aggregated with the investigations.

The inspections carried out with respect to auditors and audit firms that carry out audits of public interest entities must cover the aspects contemplated at least in Article 26.6 of the RUE.

In 2022, there will be important regulatory changes regarding the internal organisation of auditors and audit firms. On one hand, the Resolution of 20 April 2022 of the Accounting and Auditing Institute, which publishes the internal quality control standards "Quality Management for Audit Firms that perform Audits of Financial Statements" (ISQM 1) and "Engagement Quality Reviews" (ISQM 2) resulting from the adaptation of the International Quality Management Standards 1 and 2: as well as the "Quality Management for an Audit of Financial Statements" (ISA-ES 220 (Revised)), resulting from the adaptation of International Standard on Auditing ISA-ES 220 (Revised). This Resolution provides for these standards to enter into force as follows:

- The quality management systems of auditors and audit firms shall be designed and implemented in accordance with the requirements of International Quality Management Standard 1 "Quality Management in Audit Firms that perform Audits of Financial Statements", adapted for application in Spain as NIGC1-ES. The assessment of the quality

management system required by paragraphs 53-54 of that standard shall be carried out within one year from that date.

- International Standard on Quality Management 2 'Engagement Quality Reviews', adapted for application in Spain as NIGC2-ES, shall be applicable to financial statement audit engagements for financial years beginning after January 1st, 2023
- The technical auditing standard "Quality Management of an Audit of Financial Statements", resulting from the adaptation of International Standard on Auditing 220R "Quality Management of an Audit of Financial Statements", as ISA-ES 220 (Revised), will be applicable to audits of financial statements for financial years beginning after January 1st, 2023.
- In any case, all of these standards apply to audit engagements contracted or commissioned on or after 1 January 2024, regardless of the financial periods to which the financial statements covered by the work relate.

On the other hand, in accordance with the second final provision of the RLAC, the provisions of Chapter IV included in Title II, article 72.2 and article 87 of the regulation, and it shall apply to audits of annual accounts for financial years closed after that date.

Furthermore, in relation to these standards, in order to facilitate the gradual updating of the internal organisation of auditors and audit firms and the gradual transition to the new provisions on internal organisation, a "Communiqué of supervisory expectations on the entry into force of the provisions of the auditing regulations on the internal organisation of auditors" was published in February 2022, the content of which is available on the ICAC's website.

Accordingly, the inspection activities to be carried out in 2023 will aim at verifying that audit firms have implemented and maintained a quality management system that provides reasonable assurance that, on the other hand, the firms and their staff fulfil their responsibilities in accordance with applicable standards and legal and regulatory requirements and perform the engagements in accordance with those standards and requirements and, on the other hand, that the reports issued by the audit firm or the engagement partners are appropriate in the circumstances and in accordance with the rules governing the audit activity and the effective implementation of the above-mentioned aspects of the RLAC.

The inspection reports set out the results of the actions and, among other things, detail the deficiencies found, in respect of which the ICAC, makes appropriate, recommendations for improvement and sets a deadline for the implementation of the necessary improvements so that the deficiencies do not recur after this maximum implementation period.

Without prejudice to the overriding objective of improving the quality of the performance of audit engagements, the disciplinary rules contained in the LAC shall apply if the inspections reveal indications of non-compliance.

3 Objectives of the Control Plan

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

It should be noted that both the LAC and European regulations aim to strengthen confidence in economic and financial information by improving the quality of audits. To this end, their objectives are, among others, to increase confidence and improve transparency in the auditor's role, to reinforce auditors' independence, and to open up and dynamize the audit market.

Special attention should be paid to the principle of proactive responsibility imposed on auditors, requiring them to have a solid and efficient internal organization to ensure compliance with their legal obligations to fulfill the public interest function entrusted to them. In particular, this organization must have policies and procedures designed to prevent and respond to any threat to independence and to guarantee the audit's quality, integrity, and rigor.

Thus, ICAC's actions should be aimed at addressing the following objectives defined within a long-term timeframe, the determination of which will be conditioned by the availability of sufficient and necessary resources, with the ultimate aim of protecting the public interest attributed to and represented by the users of economic-financial information, including investors:

- **Priority attention to improving quality through preventive and regular supervision** through timely and recurrent inspections of all auditors of public interest entities (hereinafter, PIEs), and progressive and periodic inspections of other auditors, with the ultimate aim of improving the quality of audits in Spain as a whole.
- **Promotion of trust and transparency in those who carry out audits and reinforcement of the value of auditing** so that the commitment and role of the auditors (especially those who audit PIEs) can be better understood while at the same time facilitating and providing a better basis for decision making by users, thereby promoting better functioning of the markets.
- **Promoting competitiveness in the audit market** to improve audit methodologies as a whole, thereby reducing the gap between auditors and facilitating the elimination of barriers to growth for smaller auditors.

Achieving these objectives makes it possible to satisfy the public interest by strengthening internal and international confidence in the reliability and quality of audits and the economic and financial information audited in Spain, which ultimately affects the image and solvency of the functioning of the Spanish economy. To this end, it is important to carry out inspections with the frequency required by the regulations and to shorten the inspection cycle for larger audit firms, given the greater impact of the audits they perform. In this respect, the action plan for this year is designed to take account of the timing of this objective and strategy, but subject to the availability of resources.

4 Scope and reach

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 5,180, with the following breakdown:

Type of auditor	Number
Individual auditors (sole practitioners)	3,767
Audit firms	1,413
Total	5,180

According to the declarations submitted in October 2022 by the auditors, the number of auditors who reported invoicing for audit engagements is as follows:

	Auditors practicing in their individual capacity	Audit Firms	Total
No. of auditors declaring invoicing for audit engagements	730	1,205	1,935

According to the latest available information, the number of public interest entities in Spain amounts to approximately 1,426 entities, and the number of auditors of public interest entities amounts to 74 auditors (individual auditors and audit firms).

B) Regulation of the annual audit activity control plan

Article 91 of the RLAC develops the criteria for the annual preparation of an auditing activity control plan 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 supplied to ICAC by the auditors and audit firms.
- c. Data obtained through complaints or any other type of information that may come to the knowledge of the Institute.

In relation to the *Results or other information resulting from the inspections*, it is necessary to consider the objectives and the process of conducting the inspections. In this regard, all auditors, on the basis of risk analysis, must be subject to inspections with a certain regularity, as established by the applicable regulations.

With regard to the *Objective data resulting from the information supplied to ICAC by the auditors and audit firms*, this plan takes into account the information submitted by the auditors,

analyzing, in practice, certain indicators of possible inconsistencies that could represent a risk of possible deficiencies.

Finally, the treatment of information obtained *through complaints or any other type of information is also taken into account*, and the provisions of Article 116 of the RLAC concerning public complaints are considered.

5 Forecasts of the Control Plan for the financial year 2023

A) Approach

1 Inspections

Inspections shall consist of a regular assessment, at least at the legally established periodicity, of the auditors' internal quality control systems and should include an evaluation of the auditors' internal quality control policies and procedures and a review of individual audits or parts thereof. Article 26 of the RUE requires at least the following:

- The evaluation of the design of the internal quality control system of the statutory auditor or audit firm;
- The appropriate verification of the conformity of the procedures and review of the audit files of the PIAs, to check the effectiveness of the internal quality control system, for which purpose the selection of the said audit files has to be made on the basis of an analysis of the risk that an audit may not be adequately performed;
- The evaluation of the content of the last annual transparency report published by the auditors.

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

- Compliance with applicable auditing and quality control standards and ethical and independence requirements.
- The quantity and quality of resources used and compliance with continuing education requirements.
- Compliance with the requirements of Article 4 of the Regulation above regarding audit fees.

The need to deepen the inspections related to the number of engagements is a key factor in improving the auditors' internal quality control systems and protecting the public interest.

On the other hand, to maximize efficiency in the use of resources and the effectiveness of actions, the regulation establishes a system of inspections that combines a minimum frequency of inspections of auditors (which depends on the profile of the companies being audited) with the selection of auditors to be inspected based on a risk analysis. During 2022, ICAC will continue to implement this risk-based supervision model, which has already begun with the publication of the Economic and Financial Bulletin to support supervision based on audit risks and with the provision of tools that allow the exploitation of information and the definition of risk indicators.

In this sense, as stated in the preamble of the LAC, the special prevalence and interest required by the audits of public interest entities -due to their greater relevance and economic and financial impact- justifies greater specialization, attention, and dedication on the part of

the supervisor, and requires the latter to properly organize and make efficient and effective use of the means available for its adequate fulfillment. For this reason, and as defined in the strategy to be followed, it is considered a priority to allocate the main part of the resources available to the Subdirectorate General of Technical Control to the performance of inspections of auditors who audit PIEs due to their greater economic relevance and importance for the public interest and, in particular, for the better protection of users and investors and, consequently, for the correct functioning of the markets.

In addition, ICAC will also allocate resources in 2023 to carry out inspections of those auditors and audit firms that audit entities other than those of public interest, to also improve the quality of these auditors, thus contributing to the overall improvement of the quality of the auditing sector in Spain, in accordance with the defined strategy. In carrying out these inspections, it is envisaged that the representative bodies of the auditors will be involved in the performance of tasks considered to be purely instrumental.

As already indicated, on the occasion of the entry into force of the new Law on Audit Regulations, the inspections will be used to promote the process of implementing the new requirements for internal organization and the performance of audit engagements. This will require an ongoing dialogue with the sector to facilitate the application of the concept of "proportionality" to clarify the mechanisms for effective implementation and how the requirements are to be adapted to the different realities and circumstances of auditors.

2 Investigations and verifications

Investigations are conducted ex officio and are initiated when, after analyzing information obtained from various sources, it is concluded that there are possible indications of a possible infringement that is not time-barred. An action plan for investigations 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 to ICAC, including that which may 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 public administration bodies or supervisory bodies of entities.

The scope of the investigations shall be that of specific auditing work, specific parts or aspects related to such work, and specific aspects of the auditing activity to be reported to ICAC.

On the other hand, the verification actions shall include the actions necessary for Accounting and Auditing Institute to determine the facts or circumstances of which it has become aware by any means and which could give rise to an agreement to initiate an inspection or investigation, or, as the case may be, an agreement to initiate disciplinary proceedings.

B) Estimated actions to be carried out in the financial year 2023

It is estimated that at least 285 actions will be completed in 2023, as follows:

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 **inspections** correspond to the estimated completion in 2023 of the inspection (concerning PIE auditors) of two large audit firms that audit public interest entities and three medium-sized entities. The remaining 10 inspections correspond to auditors and audit firms that do not audit public interest entities.

In addition, during the financial year 2023, it is planned to start an inspection of a large audit firm that audits public interest entities and to start at least 3 direct inspections of medium-sized audit firms that audit public interest entities, or are otherwise deemed relevant based on a risk-based analysis.

The **investigations** to be carried out have the following breakdown:

Investigations	No. of actions
Complaints	40
Continuing training and education	150
Completion and publication of transparency reports	60
Audit engagements	20
Total	270

From the above, it should be noted:

- It is estimated that, based on previous years' experience, approximately 40 actions for the analysis of 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 continuous training obligation during the aforementioned period;
- Likewise, 60 ex officio actions are expected to be carried out on the completion and publication of the transparency reports, without including in the scope of said actions the evaluation of the content of said reports by means of their comparison with the inspection results.
- Finally, it is estimated that 20 actions will be carried out on the quality of the audit engagements that are selected in accordance with the criteria of risk of the insufficient or inadequate dedication of means and time proportional to the complexity and nature of the audited entity.

In 2023, it is planned to continue with the new line of research actions in audits of public interest entities started in 2022, in which the leading 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, ICAC's objective in its control activities in 2023 is to devote the most significant possible attention to coordination with the EU supervisory authorities (mainly through the Inspections Subgroup of the Commission of European Audit Oversight Bodies (CEAOB) and the colleges of competent authorities created for certain audit firms), as well as with the International Regulators' Forum (IRRF), as well as with the International Forum of Independent Audit Regulators (IFIAR), insofar as it has a positive effect on the strengthening of audit oversight (and its consistency with international supervisory authorities) and, consequently, on audited economic and financial information.

In this respect, CEAOB has developed a database with the deficiencies detected by European supervisors in the inspections of the largest networks of European audit firms to maintain a dialogue with the European representatives of these networks to identify the causes of these deficiencies and promote the improvement of the internal control systems of local audit firms and, therefore, the quality of auditing work.

Likewise, ICAC participates in the Colleges of National Competent Supervisory Authorities of the EU Member States, created to coordinate the supervision of the largest European networks of audit firms, in which the main deficiencies detected in the inspections are presented to the heads of the European networks and initiatives are adopted by these networks to improve the quality of the audits carried out by the audit firms that are members of these networks.

The presence in international forums is considered very relevant as an effective and operative mechanism for the exchange of information, which contributes to a greater soundness of the audit supervision in Spain, which in turn leads to an improvement in the quality of the audits and consequently, of the audited information and a better protection of the interested parties in their decision-making process in Spain. However, the resources available and the strategy defined affect the degree of involvement.

6 Technical means and resources employed

As in previous years, the means and resources to be employed in the performance of the supervision activities will mainly consist of ICAC's resources (material and human resources), without renouncing the possible use of other external resources that the regulations allow to be assigned to ICAC's activities. Special attention will be paid to the process of staff renewal that is currently underway and to the increase in technological capabilities that will enable ICAC to improve the depth and efficiency of its activities.