



i/c/a/c/ Instituto de Contabilidad y
Auditoría de Cuentas

Audit activity

Control Plan 2024

Audit activity

Control Plan 2024

Audit activity control plan 2024

Instituto de Contabilidad y Auditoría de Cuentas-ICAC

Huertas, 26

28014 Madrid

www.icac.gob.es

NIPO: 223-24-012-2



Index

Executive summary 5

SECTION 1
Introduction 6

SECTION 2
Purpose and regulatory framework
for the control of the audit activity 7

SECTION 3
Objectives of the Control Plan 9

SECTION 4
Scope and Reach 11



SECTION 5
Forecasts of the Control Plan
for the Financial Year 2024 13

SECTION 6
Technical means and resources employed 17

Executive summary

The Spanish Accounting and Auditing Institute, an administrative Autonomous Body attached to the Ministry of Economy, Commerce and Business, 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 planned control activities for 2024 in its three regulated modalities: investigations, verifications, and inspections.

- On the one hand, 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 2024, corresponding to two of the largest and three medium-sized audit firms. It is also planned to start two inspections of large audit firms that audit public interest entities and at least three 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 275 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, on the verification of compliance with the obligation to train account auditors in their position as practicing auditors, and on the verification of the completion and publication of the annual transparency reports by the auditing companies and account auditors who audit public interest entities.

Throughout this fiscal year, continuity will be maintained in a line of action initiated in 2023, focusing on investigating audit work where indicators of insufficient or inadequate resources for performance are detected. This includes cases of audit firm rotation in engagements with public interest entities, where a reduction in fees from the previous contract is observed, or instances indicating insufficient auditor resources for the complexity of the audited public interest entity.

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

ICAC's actions will aim to fulfill the objectives outlined in section III of this plan, employing a long-term approach based on the competencies granted to ICAC by current legislation. This is intended to bolster confidence in economic and financial information by enhancing audit quality.

1 Introduction

The Spanish Accounting and Auditing Institute (ICAC), an administrative Autonomous Body attached to the Ministry of Economy, Commerce and Business, 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, 2015 (from now on, LAC), consists of carrying out inspections, investigations, and verifications 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 excludes 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, the 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

for 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 in article 26 of Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding 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 activity 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 activity regulations. 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.

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 financial year 2022, there were 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 became effective. It establishes the internal quality control standards "Quality Management for Firms that perform Audits or Reviews of Financial Statements" (ISQM 1) and "Engagement Quality Reviews" (ISQM 2) resulting from the adaptation of the International Standard on Quality Management 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 220 (Revised). This Resolution plans 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 Standard on Quality Management 1 "Quality Management for Firms that perform Audits or Reviews of Finan-

cial Statements”, adapted for application in Spain as NIGC1-ES on January 1st, 2023. 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, is applicable to financial statement audit engagements for financial years beginning after January 1st, 2023
- The technical auditing standard “Quality Management for an Audit of Financial Statements”, resulting from the adaptation of International Standard on Auditing 220R “Quality Management for an Audit of Financial Statements” as ISA-ES 220 (Revised), is 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 after January 1st, 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 became effective on July 1st, 2022, and they are applicable 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 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 initiated in 2023, which are scheduled for completion in 2024, will aim at verifying that audit firms have implemented and maintained a quality management system that provides reasonable assurance that, on one 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 by the engagement partners are appropriate to the circumstances in accordance with the rules governing the audit activity. It will also verify 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, if appropriate, the ICAC makes 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 financial 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 corporate reporting by improving the quality of audits. For this purpose, the ICAC mission consists of generating confidence and security in the economy by providing an appropriate regulatory framework to guarantee the reliability of corporative information, in terms of its formulation (accounting and sustainability) and from the point of view of its verification or auditing, acting as the main driving force for quality in auditing.

In order to achieve this mission, ICAC bases on the concepts of confidence (ensuring the credibility of corporate information through the preparation and interpretation of an appropriate regulatory framework and supervising this information through the audit activity, which increases the value of the audit report), security (of the users of corporate information thanks to accounting principles and criteria that give rise to comparable information and guarantees the reliability of this information through effective supervision focused on its preventive aspect), quality (ensuring the maintenance of high accounting and auditing standards that guarantee a solid financial reporting framework with independent criteria based on professional experience and technical knowledge), and value (interacting at different levels with all the economic regulatory and supervisory institutions, and placing all its knowledge and experience at their service and that of the public).

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 time frame, 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 thanks to 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 facilitating and providing a better basis for decision making by users at the same time, thereby promoting better functioning of the markets.

- Promotion of competitiveness in the audit market to improve auditors' 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 in the economic and financial information audited in Spain, which ultimately affects the image and stability of the functioning of the Spanish economy. To this end, it is essential to try 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 financial 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 5,030, with the following breakdown:

Type of auditor	Number
Individual auditors	3,651
Audit firms	1,379
Total	5,030

According to the declarations submitted in October 2023 by the auditors, the number of auditors who reported invoicing for audit engagements is as follows:

	Individual auditors	Individual audit firms	Total
No. of auditors declaring invoicing for engagements	710	1,188	1,898

According to the latest available information, the number of public interest entities in Spain amounts to approximately 1,424 entities, and the number of auditors of public interest entities amounts to 6 individual auditors and 72 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 audit 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 auditors and audit firms.
- c. Data obtained through complaints or any other type of information that may come to the knowledge of the ICAC.

In relation to the results or other information resulting from the actions of 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 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 2024

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. They should include an assessment of the auditors' internal quality control policies and procedures, and a review of determined audit engagements or of some parts of them. Article 26 of the RUE requires at least:

- The assessment 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 PIEs to check the effectiveness of the internal quality control system, for which purpose the selection of the 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.
- 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 increase the impact of inspections continues to make it essential to strengthen the part related to the number of engagements per inspection, as a key factor in improving the auditors' internal quality control systems and protecting the public interest.

On the other hand, to maximize the 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 2024, ICAC will continue to implement this risk-based supervision model by using the

information available at the ICAC with the provision of appropriate tools for this purpose 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 at 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 2024 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.

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 must 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 the 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) Projected actions for the financial year 2024

It is estimated that at least 290 actions will be completed in 2024, as follows:

Type of action	Number of actions	
Inspections	PIE auditors	5
	Non-PIE auditors	10
Total inspections	15	
Total investigations	275	
Total actions	290	

Of the 15 inspections related to PIE auditors, two will involve large audit firms, and three will involve medium-sized entities, all scheduled for completion in 2024. The remaining 10 inspections correspond to auditors and audit firms that do not audit public interest entities.

The investigations to be carried out have the following breakdown:

Investigations	No. of actions
Continuing training and education	150
Completion and publication of transparency reports	60
Complaints	40
Audit engagements	20
Monitoring of previous inspections	5
Total	275

From the above, it should be noted:

- 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 those actions the evaluation of the content of the reports by means of their comparison with the inspection results;
- It is estimated that, based on previous years' experience, approximately 40 actions for the analysis of complaints or verification investigations and actions derived from complaints will be carried out.
- Also, 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.
- Finally, it is estimated that 5 monitoring actions will be carried out on the improvement measures implemented by auditors and audit firms to correct the deficiencies found in previous inspection reports.

In 2024, it is planned to strengthen the new line of research actions in audits of public interest entities in accordance with risk indicators such as the reduction of audit fees with respect to the previous auditor or fee concentrations, among others.

Additionally, and as in previous years, ICAC's objective in its control activities in 2024 is to devote the most significant possible attention to coordination with the EU supervisory authorities (mainly through the Inspections Subgroup of the Committee of European Audit Oversight Bodies (CEAOB) and the colleges of competent authorities created for certain audit firms), as well as with the International Forum of Independent Audit Regulators (IFIAR), insofar as it has a positive effect on the strengthening of audit verification (and its consistency with international supervisory authorities) and, consequently, on auditing economic and financial information.

In this regard, on the one hand, during the financial year 2024, ICAC will continue to chair the Market Monitoring Sub-Group, which during 2023 has completed the preparation of the Joint Report on developments in the EU market for statutory audit services to public-interest entities from 2019 to 2021 which had been entrusted to it by the European Commission, in accordance with Article 27 of Regulation (EU) No 537/2014. During the financial year 2024, this sub-group plans to continue its assigned tasks and will start work on the preparation of the new report.

On the other hand, 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.

Participation in international forums is considered crucial for exchanging information, enhancing audit supervision in Spain, improving audit quality, and better protecting stakeholders in their decision-making processes.

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. It will remain essential to consolidate the process of staff renewal that has been taking place in recent years and to further strengthen the technological capabilities that will enable ICAC to improve the depth and efficiency of its activities.

ilc/a/c/ Instituto de Contabilidad y
Auditoría de cuentas

