THE NEW AUDIT LAW SHALL ENTER INTO FORCE IN JUNE 2016

The new law seeks to increase the quality of audits, in order to boost the level of trust in economic and financial reporting. The new elements include, most notably:

- **Establishment of a 10-year rotation period**. Although a maximum contractual period of ten years is established, the text does envisage the possibility of extending the period to 14 years if, after that time has elapsed, the auditor acts jointly with the new auditor that has been appointed.
- **There is a cap on fees received by Public Interest Companies**. Two ways of capping the fees received by Public Interest Companies are established:
  (i) For services other than audit, remuneration during three or more consecutive years may not exceed 70% of the average fees for audit services received during the previous three years. However, said rule excludes the fees received for services required to comply with State or EU regulations.
  (ii) The concentration of income received from a single company is restricted. To prevent financial dependence with respect to a single company, generally this company's fees cannot exceed 15% of total income received by the audit firm in the last three years. This point maintains the incompatibility of the current rule.

According to this law, credit institutions, insurance companies and listed companies (including those that operate in Spain's Alternative Equities Market, "MAB"), their parent companies or related companies, shall be considered to be Public Interest Companies.

- **Additional incompatibilities have been included**. As many as 11 incompatible services for auditors are set forth in the regulation with regard to the audited company if either it, its parent or its related companies are a Public Interest Company. The incompatible services include legal and accounting services.
- **The content of the audit report has been increased** in order to boost transparency. Certain financial information has been included, such as the volume of business by audit services and the various audit services provided. Furthermore, new reporting obligations have been included for the supervisors of Public Interest Companies.
- **A change of auditor is now allowed** when "there is just cause."
- **New supervisory mechanisms are envisaged**, such as the Higher Technical Corps of Audit Inspectors and Accounting Normalisation, or the Administrative Corps of Accounts Auditing Inspection.

At present, the text is pending final approval by the Spanish Parliament. As a result, the new Accounts Audit Act will enter into force in 2016, adapting the new Spanish regulation to EU Directive 2014/56 of the European Parliament and the Council, on statutory audits of annual accounts and consolidated accounts, and to European Regulation 537/2014 concerning the specific requirements for companies designated Public Interest Companies.

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