



ICAIDE BUSINESS SCHOOL

**LIGA SANTANDER SPANISH
FOOTBALL:ECONOMIC-FINANCIAL
SITUATION OF ITS MEMBERS AND
POSSIBLE SIGNS OF ACCOUNTING
FRAUD**

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Abstract

The football industry has been showing throughout these years a great importance in the social and economic panorama moving massive economic figures. This Master thesis follows an explanatory and descriptive methodology who's aim is to describe the economic and financial situation of the sector and its recent evolution, explore the fulfilment of the accounting statement requirements in the accounts and reveal possible signs of accounting fraud.

The principal results show that the teams of La Liga Santander have improved their economic and financial situation during the period of years analysed, strengthening the equity, the solvency, the liquidity and the indebttness. On the other hand, for the season 16-17 the teams that haven presented the best economic and financial situation are Athletic Club de Bilbao, Celta de Vigo and S.D Eibar. As a contrast, the teams that have presented the worst situation in economic and financial terms are Valencia FC, Málaga FC and F.C Barcelona. With respect to the possible signs of accounting fraud, the valuation of sports intanginble assets tends to a higher degree of subjectivity from a perspective point of view.

Key Words: football teams, economic and financial analysis, accounting fraud, audit procedures.

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1. Introduction

Football History

The history of football as a sport starts in England in 1863 when rugby and football paths became separated. Football begins to earn supporters specially in schools, where it was taught as an obligatory subject since it was seen as an activity that tried to implement loyalty, sacrifice, collaboration and work team values for a society. The fast growth of the sport and the exponential increase in the number of viewers made football reach other parts of the world, but at different pace as seen in England (FIFA,s.f.).

In the Spanish case, football was introduced in the country via the English immigrants. The First Spanish Division League started in the season 1928-29 being the F.C Barcelona the first team to win the title. La Liga as an organization appears in the season 1984-85. Just before this, the National Championship League was organised and depended on the Real Federación Española de Fútbol (La Liga,s.f.c).

Topic Justification

The decision of this topic has been done according to various reasons. The football sector is increasing its importance on the economic and social panorama given the controversies risen because of the numerous fraud cases that move huge economic amounts of money and so attracts potential investors, communication companies and in general, social media, being necessary to give more transparency with a study for the sector. On the other hand, the actual information available given that the football teams of the First and Second Divisions are obliged to fulfil with the transparency criteria and the accounts rendition allows to stablish a design for different approximations to perform the analysis. This sector is quite sensitive to possible accounting fraud given the subjective criteria applied in order to examine the value of players and their impairments making it very attractive to support with evidence for the topic. Moreover, the appearance of new audit reports and with them the "Aspectos más Relevantes de la Auditoría", give an internal vision of the significant risks found by the auditor.

The knowledge acquired during the Master in Finance has been of great utility in the elaboration of this work given that the main source of information used will be the annual accounts of the Spanish First Division teams (Liga Santander) for the season 16-17 and its respective audit reports. For the elaboration of this work the knowledge acquired for a considerable number of subjects will be used but mainly, those related to accounting, audit and financial statement analysis. This is justified in the sense that the nucleus of this work will analyse the accounts of the football teams in order to extract economic-financial information of the sector, the interpretation and comparison as well as searching for possible signs of accounting fraud in the annual accounts and the audit reports that can quantify the relevancy.

Objectives

This TFM thesis will try to show a vision of some of the aspects of interest of the Spanish first division within the football sector. Specifically, given the financial studies taught in the current Master, the economic and financial situation of the sector and its recent evolution will be studied, making a deep emphasis on the aspects related with the fulfilment of the accounts and transparency as well as exploring possible clues of accounting fraud with the objective of showing a more realistic perspective of the situation of the Liga Santander members.

Therefore, on a first stage, a global economic-financial analysis of the teams will be performed and straight after, a more individualised analysis of each of team will be made based on the information given by each team of their annual accounts with the main purpose of appreciating the situation and evolution of each of them.

On a second stage, the annual accounts and the financial auditing reports of each team will be analysed in order to detect possible clues of accounting fraud.

Methodology

The methodology applied in the making of this thesis will be based in the gathering of present and historical information of the sector reflecting the importance of the mentioned.

In order to elaborate the economic-financial analysis I will work with the data given by the football teams via their annual accounts and with the reports of other bodies of La Liga. In order to examine the possible signs of fraud, the annual accounts of the teams and the auditing reports will be analysed.

It is important to mention that the new audit regulation forces to the stablishment of “Aspectos más relevantes de la Auditoría”, point where the auditor mentions the significant details that he has found on the performance of the audit procedure and that implies a great utility in the search of signs for accounting fraud. Therefore, with the existing literature for the subject analytical descriptive techniques will be applied to the data obtained from annual accounts and from the audit reports of the teams.

Work Structure

The structure of this work is the following. On a first stage, after the introduction, an analysis of the theoretical and practical background most recent for the subject will be performed.

On a second stage, the general situation, the evolution of the sector and the teams (Spain, Europe) will be briefly analysed applying data and economic figures.

In the forth part, the methodology applied in order to perform the economic and financial analysis is explained and the analysis of the evolution of the sector from seasons 11-12 to 16-17 as well as the analysis for the teams in the season 16-17 is

performed. Also in this section the conclusions obtained from the economic-financial analysis are exposed.

In the fifth part, the methodology applied in the search of possible signs of accounting fraud is exposed and this analysis is done with the help of the annual accounts and audit reports while the conclusions obtained are explained.

In the sixth part, the main conclusions extracted after the study of the subject and the analysis performed are developed. Lastly, the bibliography used is presented.

2. Theoretical & Empirical Background

Approaching to the literature about the subject and other existing works, it is appreciated that there aren't any works that deal with the subject as a whole. With reference to academic papers about economic financial analysis in football it has only been found studies that analyse the single situation of a team (Molina,2014), others than compare two teams (Missis,2017) or other works that study the income and expenses of the sector (Molina,2016).

On the other hand, there is the existence of reports about the European football situation (Deloitte,2017a) and at a global level (Deloitte,2017b). Also La Liga publishes an annual report about the aggregate accounts of the teams (La Liga,s.f.b)

Alternatively, there are some reports that have been found about data from the football sector, but the data is not analysed in the mentioned report, as in the case of Gay (2013).

Finally, there are no more empirical works that occupy specifically about accounting fraud in the football teams. Only works about the football transparency have been found, Riesgo (2016). On the other hand, other works analyse the common practices of accounting fraud (Amat, 2017,a,b,c,d) and (Rejón,2016), but not specifically related to the football sector.

3. Current Situation of the Football Teams in Spain-Europe

Football is the sport with the greatest impact in Europe and in Spain, and possesses the biggest number of federated players in Spain, 942.674 from which 898.551 are men and 44.123 are women. Also, it is the sport with the greatest number of teams in all of the sport federations that exist in Spain, with a total of 20.588 (Consejo Superior de Deportes,s.f.). Currently, there have been 87 editions of the First Spanish football league in which there have only been 9 different winners. The most prestigious team has been Real Madrid with 33 titles, followed by FC Barcelona, Atlético de Madrid, Athletic Club

de Bilbao, Valencia CF, Real Sociedad, Sevilla FC and Deportivo La Coruña (Sport,2018). Today, the competition counts with 20 participants.

Also, this influence over the society is appreciated via the viewing shares registered in television media. The recent 2018 World Cup broke records, beating any other sports competition reaching 1000 million viewers in the whole world (Sport,2018). Regarding Spain, this sport has a clear control over the rest of the sport emissions. 42 out of 50 most viewed emissions in tv during 2017 correspond to football games (Méndez,2017). The final of the Champions League in 2018 between Real Madrid and Liverpool fc reached an audience of 9,3 million viewers, implying a share view of 55,3% (Sport,2018).

Football is the principal industry of leisure in many countries, especially in Europe, being by itself the 17th global economy (Deloitte,2017b). In Spain, football contributes to the GDP with a 2% in a direct or in an indirect way. Moreover, the impact of La Liga in the labour market was of 128.020 workers in 2015, a 0,7% of the total occupied in Spain. This means that of every 1000 people working, 7 work for businesses that are related to La Liga. (OBS Business School,s.f.).

The following table shows the richest 10 teams according to their incomes perceived for the season 15-16. It is important to mention that from these teams a total of 5 come from the English League. After this, then comes the Spanish League with 2 teams and followed by the German,French and Italian all of them represented by 1 team. It is remarkable to mention that in the top 3 position there are two Spanish teams, Real Madrid and FC Barcelona.

Table 1. 10 richest football teams in the world, million euros.

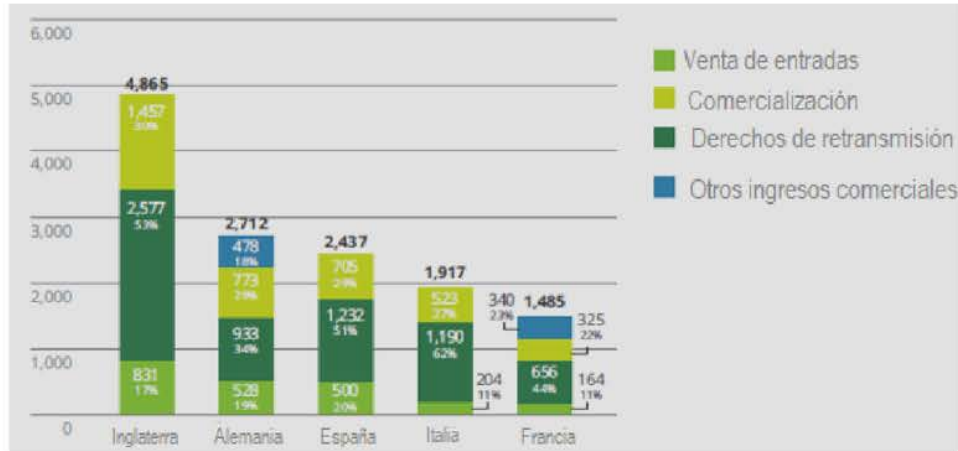
1	↔	0	Manchester United	676.3M€	6	↑	1	Arsenal	487.6M€
2	↑	1	Real Madrid	674.6M€	7	↓	(1)	Paris Saint-Germain	486.2M€
3	↓	(1)	FC Barcelona	648.3M€	8	↔	0	Chelsea	428M€
4	↔	0	Bayern Munich	587.8M€	9	↔	0	Liverpool	424.2M€
5	↔	0	Manchester City	527.7M€	10	↔	0	Juventus	405.7M€

Source: Football Money League, Deloitte 2017a.

From the following graph 1, it is extracted that from the total income of the 5 principal leagues in Europe 13400 million euros are registered for the season 15-16. According to this report, an increase of 12% has occurred compared to the previous season mainly because of the increase in the broadcast rights. Also it is observed that the Spanish League is the third in Europe according to income revenues, only worst than the English

and German. Moreover, it is appreciated that more than half of the income revenues of the Spanish league come from broadcast rights represented by a 51%.

Graph 1: Income origins for the principal European leagues, million euros



Source: Annual Review of Football Finance, Deloitte 2017b.

On the other hand, it is important to mention that in 2013, the Spanish Government approved the Ley 19/2013 de Transparencia, Acceso a la Información Pública y Buen Gobierno, December 9th. This law affects directly the football sector given that is formed by entities with a special public relevance considering that they receive state grants, trying in this case to avoid the possible fraud cases and other economic crimes. Therefore, from 2014 the teams of the first and second divisions of the Spanish league have to mandatory give information about their annual accounts and the audit reports each year on their respective websites. The main purpose of this is so that citizens can have access to the information, improve the management of the affected teams and oblige this institutions to be transparent.

Finally, once this transparency law became in force the index of transparency of the football teams in Spain was created (INFUT) where the transparency of the teams is analysed via the fulfilment of the certain indicators. This index has reflected an improvement of transparency in Spain with the pass of the seasons since it has experienced a variation of 44,2 points out of 100 in 2015 to 68,2 in 2016 (Besoccer,2017). Moreover, the expenditure in transparency for the teams in Spain increased a 18% more in season 15-16 with respect to season 14-15 (Junco, 2017).

3.1 Financial Fair Play

The European Football Union of Associations, from now on UEFA, created in 2011 the financial Fair Play in order to improve the economic situation of the European football teams. According to what's stated by UEFA regarding the application of the clean financial game of June 2015, the European football clubs can only spend up to 5 million euros more than what they perceive for an evaluation period of three years.

Moreover, it prohibits obtaining incomes (broadcasting rights, sponsorship) that are considered above the market and that they break competence rules. The investments in sports infrastructure and the development of feminine and youth football are now excluded from the payments sections.

Also the financial Fair Play limits the debt quantity that a football team can assume. The maximum amount allowed for 2017 has been, for a second consecutive year, 30 million euros which is less than what was established for the exercises of years 2014 and 2015. Moreover, no team can have debts with other teams, players or tax authorities of the country in which they reside. If this is not accomplished, the UEFA body can reserve the right to no admit in the competitions to those teams that do not fulfil with this obligations.

The disciplinary rules that the UEFA gathers for the teams that break these measures depends on the amount of the financial Fair Play that is not accomplished. These rules are:

- Warning, admonition, sanction and deduction of game points
- Income retention obtained from UEFA competitions
- Prohibition of registering new players in European competitions
- Restriction in the number of players that the team can register in order to participate in European competitions, including a limit in the expenditure of global salaries
- Disqualification of on course competitions and or future competitions

Since its entry in vigour, Spanish and European teams have suffered from the norm of financial Fair Play. Málaga F.C has been the only Spanish team that has suffered a sanction by UEFA as a consequence of this measure. However, the list of European football teams is much more wider, including Turkish teams (Galatasaray F.C), Croatian teams (Hadjuk Split and Osijek), Rumanian teams (Rapid of Bucarest and Dinamo of Bucarest) and Serbian teams (Partizan of Belgrado).

4. Economic & Financial Analysis

The first of the studies that will be performed in this thesis is the analysis of the accounting statements, which the objective is to know the current situation and the

economic and financial evolution of the Spanish football. Therefore, on a first stage, the teams that form the Spanish First Division for the seasons 11-12 to 16-17 will be analysed. On a second stage, each team will be analysed on a more individualised way for the season 16-17.

In order to perform the economic and financial analysis, the information that will be used is the one given by the teams via their annual accounts and the financial-economic report of La Liga that shows the aggregate data for the sector. Moreover, the methods established in the financial literature will be applied, choosing in order to perform the analysis the most used ratios in other works and reports of similar nature. As can be seen in table 2, the main ratios selected are the ones stated by the authors that have been consulted for the realization of the analysis. Lastly, the ratios selected have been those that can be calculated with the available information.

Table 2. Ratios definition

RATIOS	FORMULA	OPTIMAL VALUE
ROE (RETURN ON EQUITY)	$\frac{\text{NET BENEFIT}}{\text{SHAREHOLDERS FUNDS}}$	
ROA (RETURN ON ASSETS)	$\frac{\text{EBIT}}{\text{TOTAL ASSETS}}$	
SOLVENCY	$\frac{\text{TOTAL ASSETS}}{\text{TOTAL LIABILITIES}}$	1.5
LIQUIDITY	$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$	>1
WORKING CAPITAL	CURRENT ASSETS-CURRENT LIABILITIES	
FINANCIAL AUTONOMY	$\frac{\text{EQUITY}}{\text{TOTAL LIABILITIES}}$	
DEBT	$\frac{\text{TOTAL LIABILITIES}}{\text{TOTAL ASSETS}}$	0.4-0.6

Source: Own elaboration using Llorente (2010), Amat (2008) and González (2008).

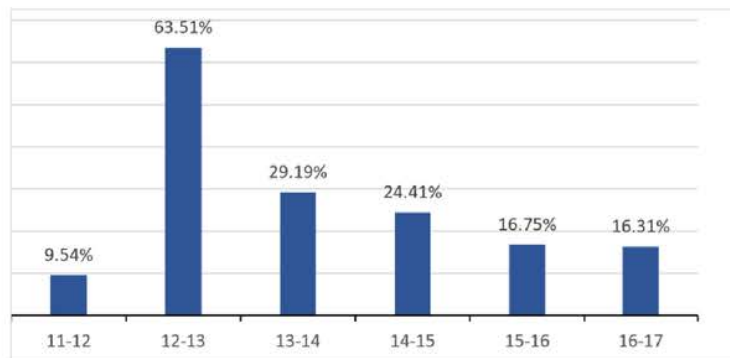
To the information available obtained from the previous sources mentioned, the ratios chosen have been applied allowing to make a descriptive and explicative analysis. Regarding the horizontal and vertical analysis of the sections that form the annual accounts, it has not been possible to perform it with deepness given the limitations of space for the work. Therefore, an analysis of the structure in the most significant sections has been chosen to do for the analysis taking into account the activity of the sector. With the purpose of giving an idea about the magnitude of the income revenues of football generated in Spain, the analysis of the composition of the net value turnovers has been performed. Moreover, this income has been compared to the generated ones by the Premier League, which is the European league with the highest income revenues.

4.1 Financial & Economic Analysis of the Sector and its Evolution for Seasons 11-12/16-17

In this section, the evolution of the ratios for the football sector corresponding to the First Spanish Division is analysed from seasons 11-12 to 16-17.

4.1.1 Return on Equity of the Sector

Graph 2: Evolution of the return on equity of the sector, seasons 11-12/16-17



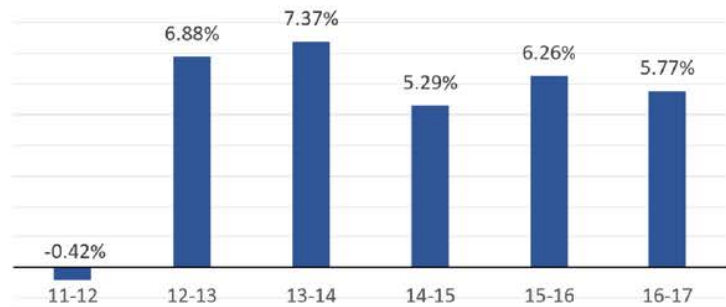
Source: Own elaboration using the report of La Liga (s.f.b)

This ratio shows the return that the football team owners obtain. Therefore, the greater the result of the ratio the higher the returns that the owners will obtain.

From Graph 2, it can be appreciated that the return on equity of the football sector has experienced a considerable increase from seasons 11-12 to 12-13. This huge increase is given to the growth in the net result of 503%. On the other hand, it is observed that from 12-13 onwards the return on equity has a decreasing tendency, stabilising itself around a 16%. The difference in the return on equity of this season with respect to the following years correspond to the increase in the shareholder's funds in 341%, while the results of the exercises do not suffer significant variations.

4.1.2 Return on Assets of the Sector

Graph 3: Evolution of the return on assets of the sector, season 11-12/16-17



Source: Own Elaboration using the report of La Liga (s.f.b)

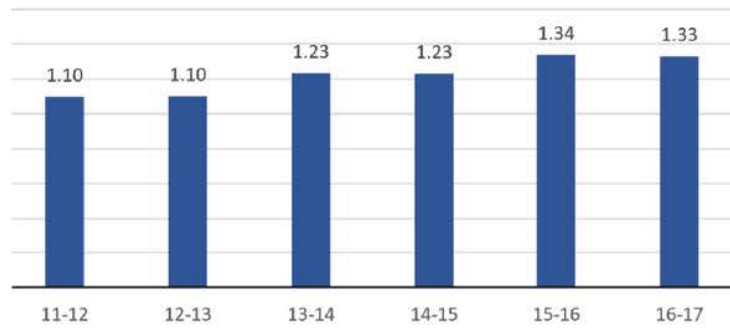
This ratio is applied in order to know the return generated by the assets of the teams, independently of how they have been financed. For this reason, the result before interests and taxes is used. A high level of return on assets indicates a good use of the investment done by the football teams.

It is observed in Graph 3 a growth in ROA between seasons 11-12 and 13-14. First, it is important to mention the negative return on assets for the season 11-12 that is due to a negative result before interests and taxes. This result incremented in a 1.709% with respect to the previous season and therefore the return on assets elevated as well. From season 13-14 onwards, the return on assets experiments a minimum reduction in order to place itself for the following seasons around the 6%.

From the Profit and Loss Statement it is extracted that season 11-12 is the only one where the financial incomes are higher than the financial expenses, very non usual situation given the activity in the sector due to its high debt levels. The most common thing is that the financial incomes are lower than the financial expenses as does happen in the following seasons. Therefore, even though the operating profit was negative, the net result is positive due to the financial revenue.

4.1.3 Solvency of the Sector

Graph 4: Evolution of Solvency for the Sector, seasons 11-12/16-17



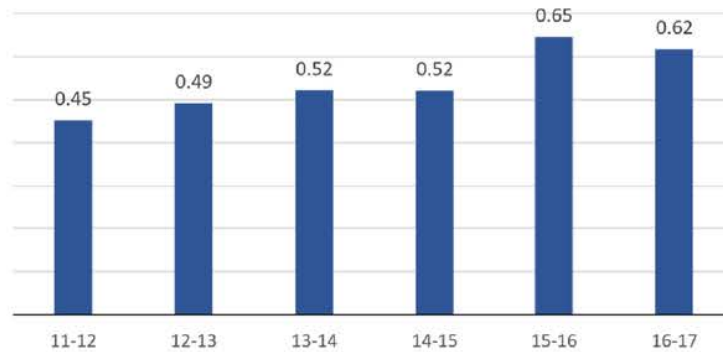
Source: Own elaboration using the report of La Liga (s.f.b)

The solvency ratio measures the capacity of the teams in order to deal with debts and obligations. Also, indicates the quantity of goods and rights that the teams have for every euro of debt. On a generic way, it is recommended that the ratio situates itself around 1.5, considering that a lower value will imply difficulties in order to attend the short term obligations, even though this does not imply necessarily a situation of non-stability.

Graph 4 shows a slow growth, increasing in around a 21% between seasons 11-12 to 16-17. It is appreciated how the solvency tends to get closer to the optimal value of 1.5, improving therefore the capacity of the football sector in order to deal with their debts. The increase in the value of this ratio is due to the increase in the total assets for the seasons a reduction in the total liabilities up to the season 15-16. However, in the season 16-17 the debts do increase, but its assets increase in a greater proportion than than their liabilities, making it possible to maintain the same value as in the previous season. On overall terms, along all of the years the football sector has more rights than obligations.

4.1.4 Liquidity of the Sector

Graph 5: Evolution of liquidity for the Sector, seasons 11-12/16-17



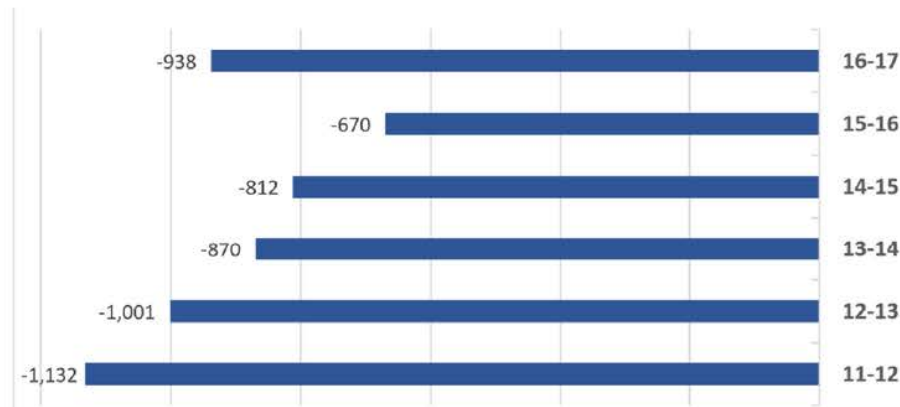
Source: Own elaboration using report of La Liga (s.f.b).

The liquidity ratio measures the capacity that a firm has in order to deal with their obligations in a short term perspective. Therefore, it informs of the capacity to have cash enough in order to deal with the obligations in the short term at a specific moment.

It is observed in Graph 5 an increase during the seasons until 15-16, improving therefore the liquidity of the seasons analysed, placing itself in the last years on values very close to 0,60. On a generic form, the ideal value will be situated in 1. The lower the index, the higher are the probabilities of having liquidity problems. However, we have to bear in mind the sector that we are analysing, considering that it's a sector that does not operate with a huge liquidity given the long term financing products that are applied. Adding more to it, the negotiation capacity that the football teams have due to the expectations of future incomes have to be considered.

4.1.5 Working Capital of the Sector

Graph 6: Evolution of the Working Capital, seasons 11-12/16-17. Data in million euros



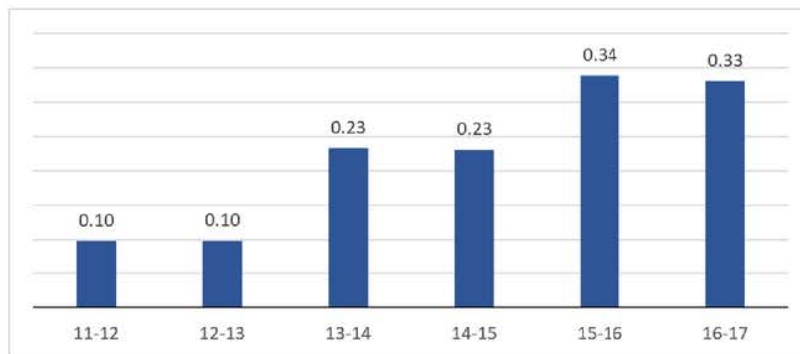
Source: Own elaboration using La Liga report (s.f.b).

This ratio shows once again the capacity that the football teams have in order to deal with their obligations at a short term perspective. A positive working capital is the ideal situation in order to reach the financial equilibrium, being the entity able to attend their commitments in the short term. However, as it has been mentioned previously, the teams of the First Spanish Division enjoy a great negotiation power making it easier for them to enjoy more favourable paying conditions and so they obtain payment terms at a very long term. Therefore, the football sector can allow itself to have a negative working capital.

Graph 6 shows how the negative working capital has reduced considerably with the pass of seasons up to the season 15-16, experimenting a reduction of around 41%. The improvement is given due to a reduction of the current liabilities hand with a hand but on a less way with the increase in the current assets. However, from seasons 15-16 to 16-17 it is observed how the working capital tends to stablish once again close to the values of the initial seasons. This increment of the negative working capital is mainly due because of the increase in the passive liabilities in 30% whereas the current assets experienced a positive variation of the 20%.

4.1.6 Financial Autonomy of the Sector

Graph 7: Evolution of the Financial Autonomy in the Sector, seasons 11-12/16-17



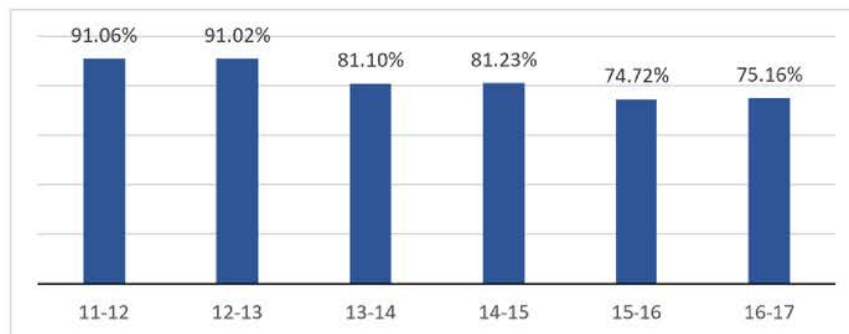
Source: Own Elaboration using La Liga report (s.f.b)

The ratio of financial autonomy measures the degree of independence that a firm has in relation to its creditors given the level of debt existing, this means, the capacity that an specific organization has in order to finance itself without having the need to require external financing. The higher the ratio of financial autonomy the more independent the firm will be with respect to its creditors.

Graph 7 shows clearly how the financial autonomy has improved in the First Spanish Division with the pass of the seasons, triplicating from seasons 11-12 up to 16-17. This major increment has been due to the increase in the equity of the sector hand by hand with a reduction of the total liabilities.

4.1.7 Debt of the Sector

Graph 8: Evolution of the Debt in the Sector, 11-12/16-17



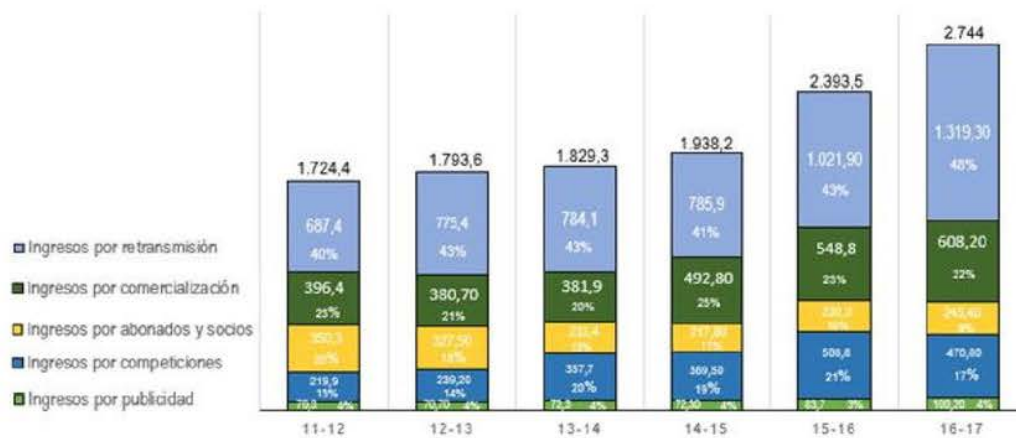
Source: Own Elaboration using La Liga Report (s.f.b)

This ratio measures the proportion of debt that a firm can support. The ideal value will be on a range between 40% and 60%. A value being superior to 60% will imply that the team is supporting an excessive volume of debt which can lead to the decapitalization of the team and the loss of autonomy against third parties.

Graph 8 shows how the financial dependency has reduced against third parties in the sector, reducing therefore in between the seasons analysed in a 18%. This reduction is mainly explained due to a decrease in the total liabilities and an increase in the equity throughout the years.

4.1.8 Income Analysis of the Sector

Graph 9: Income composition for the sector, seasons 11-12/16-17



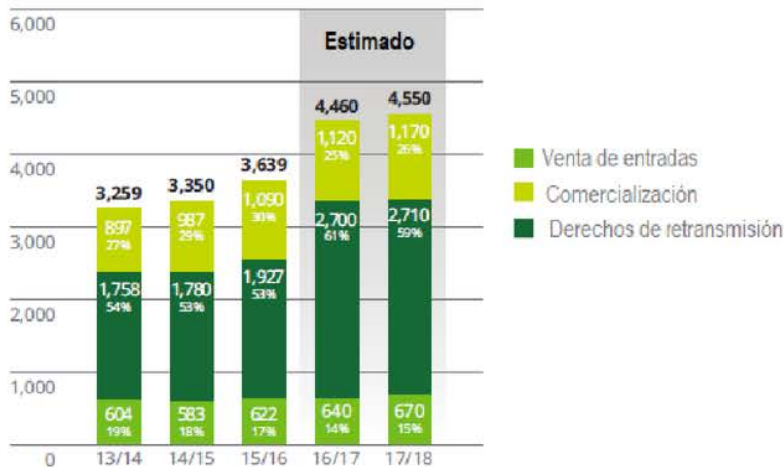
Source: Own Elaboration using La Liga Report (s.f.b)

In graph 9, each part is compared to the net turnover figures which are situated on top of each column. In order to do so, it is pretended to know the composition of the total incomes of the sector for each season. On a first stage, it is observed that the income for publicity is the one with a lower quantity situated around a 4%. Moreover, it is important to mention how the income for competitions has increased with the pass of the seasons while at the same time the income for subscribers and members has been experiencing a reduction during the seasons that have been analysed. Alternatively, the income for commercialization results to be in the second position according to the income sources for the teams whereas the income for tv broadcasting represent in each and every single season a 40% of the total income, being this the part that most contributes to the net turnover.

It is remarkable to mention that all the components of income for the sector have been incrementing from seasons 11-12 to 16-17 with the exception of the income for subscribers and members which has experienced a reduction of 30%. Also, it can be observed how the income for broadcasting, commercialization and competition have duplicated from seasons 11-12 to 16-17, increasing therefore the total net turnover in figures very close to 60%.

Once the origin of the income for Liga Santander has been analysed, they will be compared with the income of the Premier League because it's the football competition that generates more income in whole Europe. By applying this, it is pretended to observe the differences in the income composition for the teams that form both competitions.

Graph 10: Income composition for the Premier League teams, seasons 13-14/17-18



Source: Annual Review of Football Finance, Deloitte (2017b).

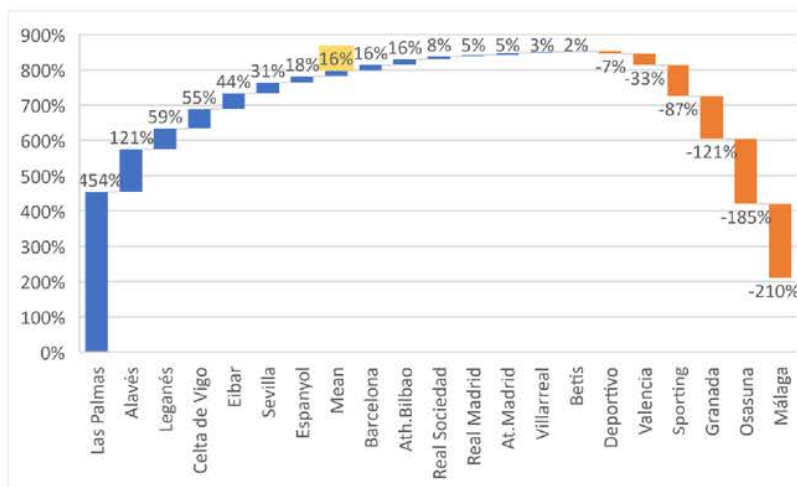
Graph 10 shows the incomes per season of the Premier League expressed in millions of Sterling Pounds. In euros, it is observed how the total estimated incomes of the Premier League in season 16-17 are 4497 million euros, representing an 81% more than Liga Santander. Moreover, the incomes for competition and subscribers have a lower weight for the Premier League incomes than in the case of Liga Santander. On the other hand, the incomes for broadcasting and commercialization are much higher than the ones generated by the Spanish teams. Regarding these, it is noticeable to mention that the incomes for broadcasting in the season 16-17 are 3013 million euros being therefore superior in a 128% more than Liga Santander.

4.2 Economic & Financial Analysis for Liga Santander teams during the Season 16-17

In this second section of the financial and economic analysis the study of the economic and financial situation of the teams that form the First Spanish Division league will be analysed for the season of 16-17.

4.2.1 Return on Equity for the Teams

Graph 11: Evolution of the return on equity for teams, season 16-17



Source: Own elaboration using the annual accounts for teams (2017)¹

Graph 11 shows the huge differences existing that there are between teams in terms of the return of equity. There are certain teams that place themselves around the mean and some times even equal it. It is significant to mention that U.D Las Palmas is the team that contributes with the most return to its owners compared to the rest of the teams, given the very high result of the period with respect to the shareholder's funds. Moreover, the two main actors of Liga Santander do not offer great amounts of return to their owners, placing F.C Barcelona on the same quantity as the mean and Real Madrid below it with a 5% of ROE.

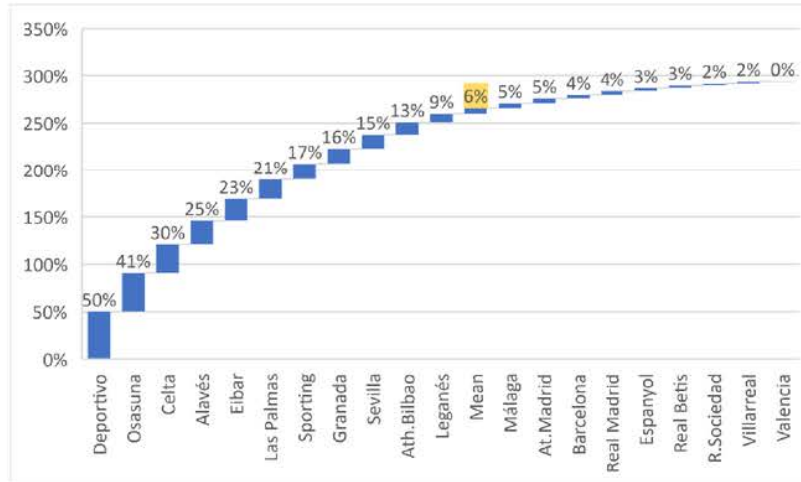
On the other hand, the negative returns of certain teams are given due to the negative shareholder's funds, except the case of Valencia F.C that has taken place because of a

¹ The bibliographical references make reference to the annual accounts of the 20 teams analysed which are cited individually in the bibliography.

negative net result, being the only team of this seasons that obtained a negative net result.

4.2.2 Return on Assets for the Teams

Graph 12: Evolution of the return on assets for teams, season 16-17

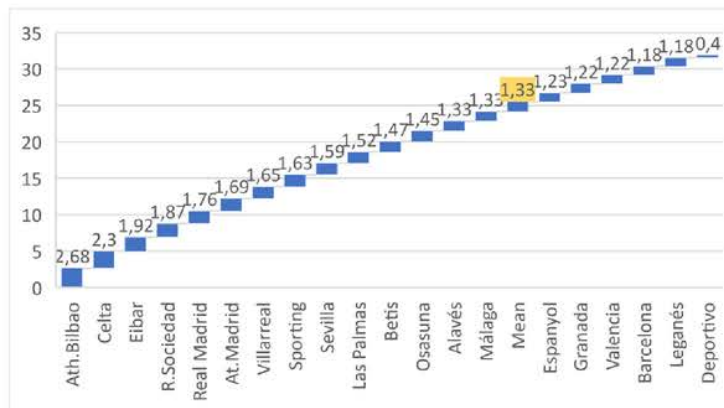


Source: Own elaboration using the annual accounts for teams (2017)

On graph 12 it is observed how there are more teams situated above the mean than below it. Moreover, those teams that situate themselves above the mean they do it on a bigger proportion than those that place themselves below it. On a similar stage, it is observed that the two most important teams of Liga Santander as are Real Madrid and F.C Barcelona they obtain an inferior value to the one given by the mean of the sector, which implies that teams such as Deportivo de la Coruña or C.A. Osasuna are making a more effective use of their assets.

4.2.3 Solvency for the Teams

Graph 13: Evolution of solvency for teams, season 16-17

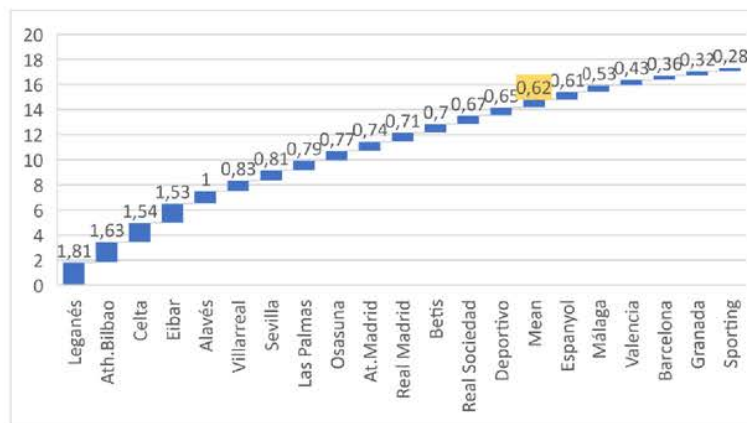


Source: Own elaboration using the annual accounts for teams (2017)

In graph 13 we can observe how certain teams situate themselves around the mean of the sector. Firstly, it is important to mention the low solvency of Deportivo de la Coruña. The team will not be able to deal with their obligations given the excess of liabilities against their total assets. On the other hand, it is remarkable to mention the situation of Athletic Club Bilbao and Celta de Vigo given that they possess a lower total liability with respect to the total assets that comprise the rest of the teams from La Liga Santander. On a parallel way, it is noticeable the existing difference between the two most important teams of Liga Santander, being these Real Madrid F.C and F.C Barcelona, where the variation between these two is situated in 58%, more in favour of Real Madrid F.C.

4.2.4 Liquidity for the Teams

Graph 14: Evolution of the liquidity for teams, seasons 16-17

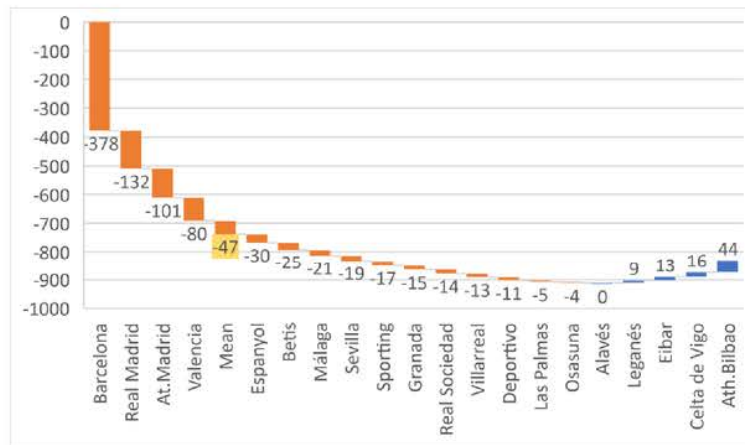


Source: Own elaboration using the annual accounts for teams (2017)

From this graph 14 it can be extracted how, once again, a great majority of the teams place themselves around figures which are very proximal to the mean of the sector. The fact that the mean is less than 1 implies that a great number of teams will have difficulties in order to deal with short term payments, being the worst Sporting de Gijón the worst case possible given its limited current assets against their circulant liabilities. Finally, it is noticeable to mention that F.C Barcelona obtains the third place in terms of the worst liquidity of the sector even though it is one of the most important teams of La Liga Santander.

4.2.5 Working Capital for the Teams

Graph 15: Evolution of the working capital per teams, season 16-17. Data in million euros

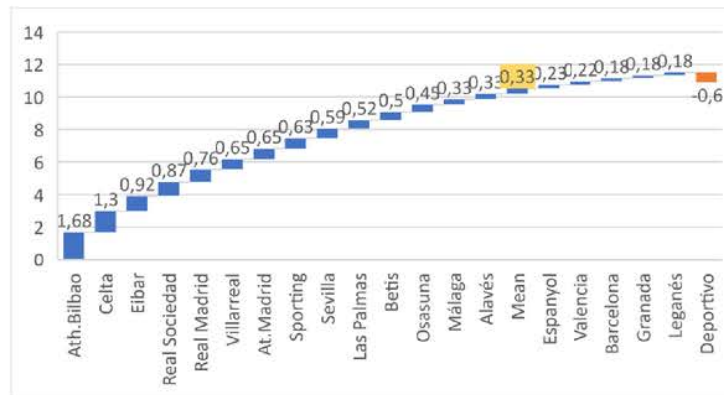


Source: Own elaboration using the annual accounts for teams (2017)

At a first stage it is observed how in Graph 15 the mean for the sector is very influenced by especially four teams, which are F.C Barcelona, Real Madrid, Atlético de Madrid and Valencia FC. Between them, it is important to mention the negative huge amount of working capital that F.C Barcelona presents. The most relevant factor for this result is explained mainly, according to the Memory in the annual accounts of the club itself, due to the short term periodifications that have been included for the calculations. These periodifications do not imply financial future obligations for the team since they will be recognised as income when the accrual takes place. Alternatively, the graph expresses clearly how the majority of the teams present negative working capitals and therefore can experience issues when having to deal with their payment commitments. On the other hand, it is reflected how only 5 teams analysed present a positive working capital. These teams are: Athletic Club de Bilbao, Celta de Vigo, S.D Eibar, C.D Leganés and Deportivo Alavés.

4.2.6 Financial Autonomy for the Teams

Graph 16: Evolution of the financial autonomy per teams, season 16-17

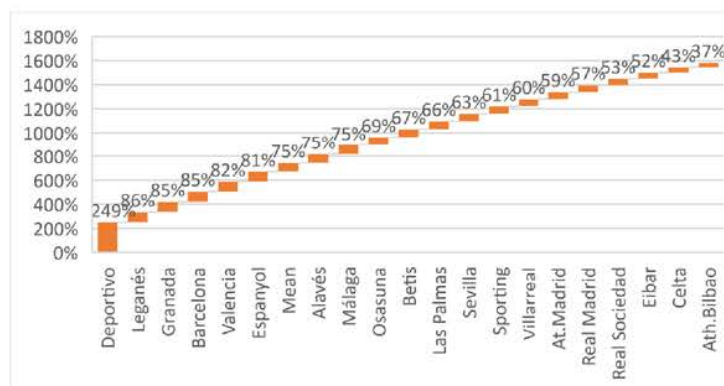


Source: Own elaboration using the annual accounts for teams (2017)

In graph 16 it is observed how mostly the majority of the teams are situated above the mean of the sector. It is noticeable to mention the negative financial autonomy obtained by Deportivo de la Coruña explained mainly due to the negative equity. Moreover, Athletic Club de Bilbao experiences the greatest financial autonomy with a 409% greater than the mean for the sector. Therefore, it is the team of La Liga Santander with the less dependence over its creditors.

4.2.7 Debt for the Teams

Graph 17: Evolution of the debt per teams, season 16-17

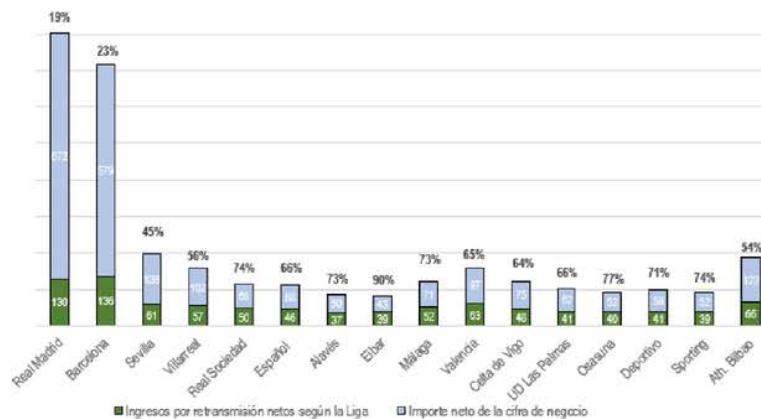


Source: Own elaboration using the annual accounts for teams (2017)

In graph 17 it can be observed the indebtedness that the teams of La Liga Santander suffer during the season 16-17. On a first stage, it is noticeable the huge amount of debt supported by Deportivo de la Coruña given that the total liabilities almost triple the sum of the total liabilities plus the equity. This event is possible considering that the equity of Deportivo de la Coruña is negative. On the other hand, it can be observed how the majority of the teams experience level of debts equal or lower than the mean of the sector. Moreover, there are only 6 teams that possess a level of debt lower than the maximum recommended, which places around a 60% being Athletic Club de Bilbao the team that presents the lowest level of debt.

4.2.8 Analysis of Income for the Teams

Graph 18: Weight of incomes from broadcasting over the net value of turnovers for the teams, season 16-17. Data in million euros



Source: Own elaboration by using La Liga (s.f.a)

Graph 18 expresses the relationship between the incomes from broadcasting and their respective weights over the net value of turnovers for each team. On a first stage, it can be observed how F.C Barcelona is the team that receives the most regarding this concept, overcoming in 5,7 million euros to Real Madrid. Moreover, it is necessary to mention that except F.C Barcelona, Real Madrid and Sevilla F.C, the incomes from broadcasting for the rest of the teams imply more than 50% of the total incomes, being S.D Eibar the team with the highest weights for these type of incomes that represent a 90% of the net value of turnovers. Therefore, it is visible how there exists a high degree of dependency of the incomes from broadcasting for the teams of La Liga Santander.

It is crucial to mention that in April 2018 the auction of the for the television broadcasting rights for the seasons 2019-20 and 2021-22 takes place. However, the principal operators which are Telefónica, Orange and Vodafone express publicly the massive elevated prices that are expected for the following seasons in the market, being necessary to reduce costs in order to approach much more sensible quantities.

Telefónica loses annually around 400 million euros in the concept of broadcasting every single football game in Spain. (Vidal, 2018).

Given this scenario, the main television operators in Spain have postponed the auction with the idea of reducing the import amount that has to be paid. Whereas Orange and Movistar have made their bid offers at the beginning of April, Vodafone decided not to take place finally in the auction for the television broadcasting rights of the UEFA Champions League (La Vanguardia, 2018). Therefore, this event could affect the principal amounts of income perceived by the teams for the respective following seasons, having a weight of 48% over the net value of turnovers for the sector during the season 16-17.

4.3 Conclusions of the Financial and Economic Analysis

4.3.1 Conclusions of the analysis for the sector

On a first stage, from this analysis is extracted that in general terms, the teams that form La Liga Santander have made a great effort in order to improve their economic and financial situation during the analysed years, reflecting therefore an improvement in the results for the calculated ratios. Equity has strengthened and an improvement of the solvency, the liquidity and the indebtedness has taken place with the pass of the seasons.

However, a slight worsening has been perceived during the last year analysed being reflected in the calculated ratios but especially in the negative working capital that has experienced a considerable increase for the last season. The football sector of the First Spanish Division League will experience certain problems when it comes to handle the short term debts given its low liquidity. Therefore, this sector works with a level of debt superior to the recommended but at the same time apparently there are no existing complications with respect to working with negative working capitals given the negotiation capacities of the teams, especially taking into account that the expected future incomes are able to apply a great pressure over its creditors.

Alternatively, the worsening of the sector for the season 16-17 is justified by La Liga. The argument itself is that the increase of the debt with respect to the previous season takes place due to the improvement of the financial health conditions of the competition, and logically, the level of debt increases as well as the rest of the patrimonial masses and results.

Finally it can be seen how there is a great difference existing between the income perceived for television rights in Liga Santander compared to the English Premier League. The Premier League obtains a 128% more for this concept than the Spanish League, placing itself as the football competition that obtains the most income of all the world. Moreover, it is noticeable to mention that the incomes of the Spanish teams come principally from television rights, implying in all of the seasons that have been analysed more than a 40% of the net value of turnovers.

4.3.2 Conclusions of the analysis per team

Table 3 shows a classification of the teams according to the financial ratios that have been analysed on the previous sections. The green colour shows the best value for each ratio and the red colour reflects the worst ratio. It is remarkable to mention that from all of the teams that form La Liga Santander, there are three teams which financial and economic situation seems to be much better than the rest of the teams. These teams are: Celta de Vigo, S.D Eibar and Athletic Club de Bilbao. Even though it can be seen in the table that Celta de Vigo appears to be the first one classified, Athletic Club de Bilbao obtains much more improved results in most of the financial ratios but given to its low returns it is placed on the second position.

On the other hand, the case of Deportivo de La Coruña seems to be similar but in an inverse way. It is the team that appears to be a greater number of times on the last position of the ranking according to the financial ratios calculated. But alternatively, it is the team that has the highest Return on Assets, which finally places itself in the 15th position of the ranking. This event is possible given that in the calculation for this ratio the elevated financial expenses that the football teams holds are not taken into account. However, this financial expenses in fact are reflected in other financial indicators such as the debt levels or the financial autonomy. Valencia F.C will be situated on the position of the ranking even though being the worst team in a single financial ratio.

Table 3: Ranking of financial ratios per team, season 16-17

TEAMS	ROE	ROA	SOLVENCY	LIQUIDITY	WORKING CAPITAL	FINANCIAL AUTONOMY	DEBT	MEAN	POSITION
Celta	4	3	2	3	2	2	2	2,57	1
Ath.Bilbao	9	10	1	2	1	1	1	3,57	2
Eibar	5	5	3	4	3	3	3	3,71	3
Las Palmas	1	6	10	8	7	10	10	7,43	4
Alavés	2	4	13	5	5	14	14	8,14	5
Sevilla	6	9	9	7	13	9	9	8,86	6
Real Sociedad	10	18	4	13	10	4	4	9,00	7
Villarreal	13	19	7	6	9	6	7	9,57	8
Real Madrid	11	15	5	11	19	5	5	10,14	9
Osasuna	19	2	12	9	6	12	12	10,29	10
Atlético	12	13	6	10	18	7	6	10,29	11
Leganés	3	11	19	1	4	19	19	10,86	12
Sporting	17	7	8	20	12	8	8	11,43	13
Betis	14	17	11	12	15	11	11	13,00	14
Deportivo	15	1	20	14	8	20	20	14,00	15
Espanyol	7	16	15	15	16	15	15	14,14	16
Málaga	20	12	14	16	14	13	13	14,57	17
Granada	18	8	16	19	11	18	18	15,43	18
Barcelona	8	14	18	18	20	17	17	16,00	19
Valencia	16	20	17	17	17	16	16	17,00	20

Source: Own elaboration

Moreover, it can be observed the existing difference between the situation of the two most important teams of La Liga Santander being Real Madrid situated on the 9th position and in contrast, F.C Barcelona on the 19th position. Also it is important to mention that even though these two teams are the most influencable, they obtain unfavourable positions while the teams that have less weight and influence over the sector occupy the top 3 positions.

Finally, the great uncertainty that exists these days with respect to the prices that television broadcasting rights amounts will be bought at represent a significant threat for many teams, especially those in which these broadcasting rights represent more than a 50% over the net value of turnovers meaning that it will affect of all the teams analysed except F.C Barcelona, Real Madrid and Sevilla F.C. Therefore, it is very probable that in the future the teams will see how the broadcasting operators are not able to deal with the huge elevated prices of the broadcasting rights and will experience a significant reduction of their returns.

5. Possible Signs of Accounting Fraud

The empirical analysis in this following section is based on the accounting manipulation or in other words, finding possible signs of accounting fraud. The accounting fraud consists in the modification of the accounts with the purpose of obtaining a financial image that differs from reality. Therefore this kind of fraud is used with the aim of achieving a more favourable image of the financial and economic information of the football club that may be needed by third parties (for example, investors) or a less favourable image in order to pay less taxes. There are two possible signs of accounting fraud: legal and illegal.

The legal accounting fraud also known as creative accounting represent admissible practices by the present accounting regulation. According to Naser (1993,page 2): “the creative accounting is the transformation of the accounting figures from what they really represent to what those who elaborate them will really want them to be”. Therefore, it consists in registering the accounting on a very intended purpose, choosing one criteria or the other depending on the result that they will pretend to achieve. This event is possible given that the applicable regulation allows an elevated number of alternatives regarding the financial operations that require estimations. Due to the possibility of choosing from these alternatives it is possible to perform a more or less prudent accounting making more pessimistic or more optimistic estimations depending on the objective that wants to be achieved.

The illegal accounting fraud represent those actions not allowed by the present accounting regulation that imply distorting the accounts, in other words, omitting figures, data or registering false figures that do not exist. Therefore, applying this practices can lead to legal consequences in behalf of accounting crimes.

This master thesis focuses mainly on the legal accounting fraud. In order to perform this work, it has to be taken into account that it is not possible to have a clear access to the accounting information which is reserved for internal agents and auditors of the teams and therefore, a profound and exhausting search of the possible signs of accounting fraud can not be performed. Given to this, signs of the available information according to the existing literature of accounting fraud will be searched in order to analyse the financial situation of the teams.

According to the work of Amat (2017a,d) it is prosed the search of the possible signs according to three sources which are: annual accounts, audit report and other signs. Alternatively, the analysis of the annual accounts is completed with the proposals of Rejón (2016). In the following table 4 the signs used by each author are indicated and the ones that are going to be applied for this thesis given the available information.

Table 4: Possible signs of accounting fraud applied

	Amat (2017a,d)	Rejón (2016)	Present Thesis
Annual Accounts	Balance	Balance	
	P&L	P&L	
	Memory	Memory	Memory
	Cash Flow Statement	Cash Flow Statement	
	Changes in Equity	Changes in Equity	
Audit Report	Opinion		Opinion
	Content of the Caveats		Content of the Caveats
			Most Relevant Aspects of the Audit Procedure
Others	Excess of Luxuries		
	Frequent Changes of Auditor		
	Fiscal Sanctions		Fiscal Sanctions
	Legal Claims		Legal Claims

Source: Own elaboration

5.1 Signs according to Annual Accounts

In order to perform the analysis of the possible signs of accounting fraud in the annual accounts, this master thesis will focus on various aspects of the Memory. On a first stage, the study of Note 2 of the Memory referring to Basis for the Presentation of the annual accounts will be performed.

Table 5: Possible signs of accounting fraud present in the Memory, season 16-17

Note 2 of the Memory			
	Change of accounting criteria?	Existence of errors?	Applies Functioning Principle of Enterprise?
Real Madrid	Not informing	Not informing	Not informing
Barcelona	Not informing	Not informing	Yes
Sevilla	No	No	Not informing
Villarreal	No	No	Yes
Real Sociedad	No	No	Yes
Ath.Bilbao	No	No	Yes
Espanyol	Yes	Yes	Yes
Alavés	Not informing	Not informing	Yes
Eibar	Not informing	Not informing	Yes
Málaga	Not informing	Not informing	Yes
Valencia	No	No	Yes
Celta	Not informing	Not informing	Yes
Las Palmas	Not informing	Not informing	Yes
Betis	No	No	Yes
Deportivo	Yes	Yes	Yes
Atletico Madrid	Not informing	Not informing	Yes
Leganés	No	No	Yes
Granada	No	No	Yes
Sporting	No	No	Yes
Osasuna	No	Yes	Yes

Source: Own elaboration using the annual accounts for teams (2017)

Table 5 shows the possible signs of accounting fraud in note number 2 of the Memory. Among other aspects, the note pretends to inform of whether the company or in this case the football team has modified their accounting criteria or not, if there are any existing errors and if the Functioning Principle of the Enterprise applies or not. It can be observed how 8 teams do not inform about the total content required in the mentioned note. According to Rejón (2016, page.3) "if such practices are not explicitly informed in the Memory, this will be traduced into fraud in the revelations", therefore, the football teams that do not fulfil with this practice the existence of a sign of fraud in the audit procedures can be considered and will be detected via the Memory. From this event, it can be extracted the fact that not informing correctly about certain aspects of the Memory will imply that certain hidden practices can be pursued referring the existence of modifications of the accounting criteria that will benefit the financial valuation of the football team.

Regarding the change of accounting criteria, as established in the Spanish Plan General de Contabilidad, the firms must follow the Principle of Uniformity, this means, follow a determined accounting criteria that must be maintained with the pass of the years until the circumstances that motivated the adoption of the mentioned criteria become modified. Moreover, if it is not clear the reason that originated the change of the accounting criteria this could imply a possible sign of accounting fraud (Amat, 2017a). Any change of the estimations can produce a significant effect in the annual accounts, effect that will be sharpened due to the activity and the elevated weight of the

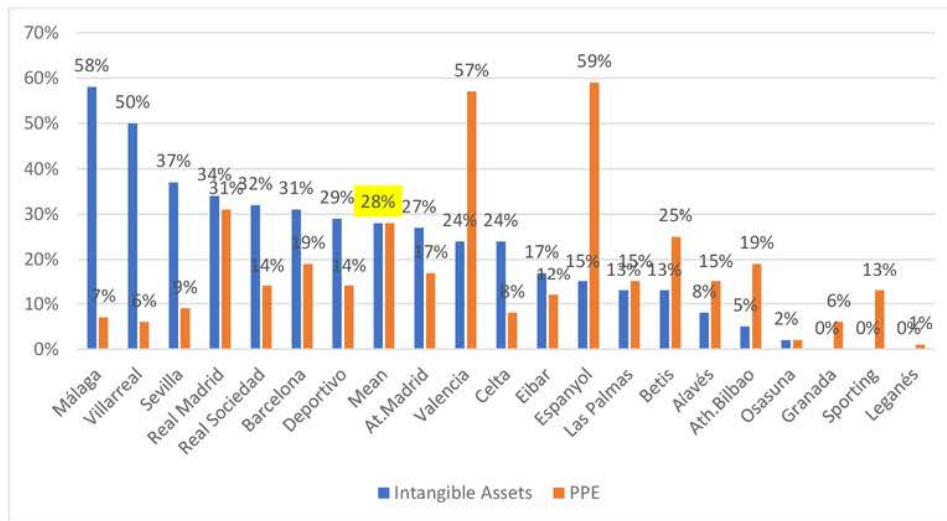
intangible assets for the sector. However, there are two teams that have changed the accounting criteria and have justified the reasons for changing in the Memory. This teams are: R.C.D Espanyol and Deportivo de la Coruña.

On the other hand, the errors presented in the annual accounts of the football teams can also be not intentioned. However, especial attention must be payed to these errors since according to Amat (2017a, page 3): “there are firms that perform an incorrect accounting in a year and they manage to correct it in the following years in order to not modify the Income Statement since it is registered directly in the Equity”.

Finally, in order to conclude with the analysis of Note 2, all of the teams inform about the application of the Functioning Principle of the Enterprise except Real Madrid and Sevilla F.C.

On a second stage, the note 4 of the Memory is analysed, referring to the Registering and Valuation Rules. Another possible sign of accounting fraud indicated by these authors of the notes are the estimations referred to amortizations, impairments and provisions, given that they represent indicators that are susceptible when it comes to valuations, making it possible to perform optimistic or pessimistic estimations in order to increase or reduce the asset and the expenses.

Graph 19: Weight of the Property, Plant and Equipment and Intangibles per team over the total Assets, season 16-17



Source: Own elaboration using the annual accounts for teams (2017)

Due to the activity of the football sector, it can be observed in graph 19 the elevated weight that the intangible assets and Property, Plant and Equipment have over the total assets of the football teams. In case there is the existence of error estimations, this could imply a significant effect in the accounts. It is remarkable to mention that Malaga F.C is the team that has a higher weight in terms of intangible assets, that represent a 58% of the total assets. On the other hand, R.C.D Espanyol is the team that has a higher proportion of Property, Plant and Equipment, representing a 59% of total assets. On the opposite side, Sporting de Gijón and C.D Leganés have no representation of intangible assets on the balance statements or whatsoever, considering that it is totally amortized. Moreover, Real Madrid and F.C Barcelona are situated above the mean with respect to intangible assets, having a 34% and 31% respectively.

This accounting sections amortize and impair themselves, so it is relatively easier to modify its value. Each teams uses their own criteria in order to calculate the amortizations and the impairments. Real Madrid explains in note 2.3 of the Memory “Critical Aspects of the Valuation and Estimation of Uncertainty” that in order to establish the accounting value of the assets and liabilities, estimations based on their criteria are performed, being the mentioned values hardly to determine by the application of other sources. Therefore, when applying their own criteria, the teams can alter the mentioned estimations in the favour, and may offer different results depending on the personal interests of the football club.

On a third stage, the note number 12 of the Memory is analysed, referring to the fiscal situation of the team, focusing mainly on deferred tax assets. The alarms appear in a society in where there have been considerable losses during the last years and the future perspectives are still not clear. In this case, the deferred tax asset may have no sense since it is not clear that the company or in this case the football teams experience profits in the future which will allow them to deduct losses in the previous years (Amat, 2017a). This situation affects Valencia F.C since it has been the only team that has experienced losses in the seasons 15-16, 16-17 with 31 million Euros and 27 millions euros respectively, implying therefore a deferred tax asset of 6% of the total assets. Moreover, according to the audit report, in the section “Most Relevant Aspects of the Audit Procedure”, this deferred tax asset is indicated as a possible risk due to the uncertainty about the future perspectives of the team as will be analysed below.

5.2 Signs according to the Audit Report

Another source that is able to search for possible signs of accounting fraud is the Audit Report emitted by an external audit company. The work performed by the financial auditors has to be taken into consideration in their purpose of searching for possible signs of accounting fraud and the alert signals that traditionally can be found in the sections named “Opinions” and “Opinion Fundamentals” as in these sections is where caveats are found.

However, it is crucial to mention the entry of the new models of audit reports which are mandatory for all of the accounting exercises that initiated in June 2016. This new report includes a new epigraph named “Most Relevant Aspects of the Audit Procedure” where the aspects that have been considered become analysed on a very precise and detailed way according to the auditor’s justifications as matters that have had a greater degree of significance in the audit procedures of the financial statements since they have been areas with a greater risk of material incorrection and due to the application of judging estimations on the side of the direction entity. This new regulation has affected the audit reports of the football teams from season 16-17 since the football teams present a closing accounting exercise split considering that they finalize the exercise in June, once the football season has concluded. Therefore, they are the first new public reports in which there is access to. The new audit report, therefore, adds another source in order to search for possible signs of accounting fraud with the section “Most Relevant Aspects of the Audit Procedure” since those indicators that the financial auditor has considered as significant risk can hide possible signs of accounting fraud. Consequently, this point of analysis will be focused in the sections of “Most Relevant Aspects of the Audit Procedure”, “Opinion” and “Opinion Fundamentals”.

Table 6: “Most Relevant Aspects of the Audit Procedure”, season 16-17. Data in euros

	Éibar	Málaga	Barcelona	Sevilla
1.Valuation of the sports intangible assets	7.684.00	45.586.323,36	236.300.000	76.072.000
	Real Madrid	Deportivo	Villarreal	Celta
1.Valuation of the sports intangible assets	366.000.000	14.985.532	103.256.000	24.270.243,98
	Valencia	Espanyol	Barcelona	Sevilla
2. Passive contingents related to fiscal and legal matters	36.225.000	2.500.000	Not quantified	12.449.000
	Valencia	Espanyol	Málaga	
3. Principle of the functioning company. Negative working capital	80.089.000	17.000.000	20.974.482,07	
	Real Madrid	Deportivo	Alavés	
4.Periodifications of current and non current liabilities:			Not quantified	
4.1 Short term periodifications	90.492.000	6.875.474		
4.2 Long term periodifications	16.952.000			
	Valencia			
5.Impairment of property, plant and equipment	29.171.000			
	Las Palmas			
6.Personnel expenses (players)	23.683.000			
	Las Palmas			

7.Income for competition and subscribers	10.721.000
	Espanyol
8.Income for publicity	1.400.000
	Deportivo
9.Financial Liabilities at amortized cost	22.715.782
	Sporting de Gijón
10.Structure of debt and conditions	Not quantified
	Ath.Bilbao
11.Income and expenses recognition	Not quantified
	Valencia
12.Recovery value from investment on an investee	Impairment:17.410.000 Provision:7.337.000
	Valencia
13.Conditioned financial liability	61.000.000
	Valencia
14.Valuation of tax deferred assets	28.250.000

Source: Own elaboration using the annual accounts for teams (2017)

Table 6 shows the different concepts that are established in the section “Most Relevant Aspects of the Audit Procedure in the Audit Report” of each team that forms La Liga Santander and the quantification performed by the financial auditors about the teams.

On a first stage, it is observed how the most commented risk is the valuation of the sports intangible assets. This is explained because it is considered as very sensitive indicator of accounting fraud since the accounting regulation allows a great number of possible estimations, allowing to apply the most beneficial criteria and not the one that reflects the most loyal image of the team. The sum of the Property, Plant and Equipment considered as risky is a total of 874.154.099 euros, whereas the total of the sector is 1.345.600.000 euros. Therefore, a 65% of the total sports Property, Plant and Equipment of the sector is considered by the auditors as a very sensitive indicator of significant risk.

On a second stage, there are four teams that possess significant matters with respect to the contingent liabilities related to legal and fiscal matters by a total of 51.174.000 euros. This aspect is very relevant for the financial auditors given the importance of the contingencies and the uncertainty related to the evaluation of the mentioned liability due to the reliability of the estimation performed by the direction of the society. With respect to the contingent liabilities quantified it is necessary to mention that the registered by Valencia C.F for the season is explained mainly by Government inspections, by the transcript of the European Commission referred to the state grants and due to the contingencies derived by the checking of liquidation purposes for numerous

accounting exercises and tributes (Note 14 of the Memory). Moreover, the registered by R.C.D Espanyol is explained by the legal disputes on course and tax inspections (Notes 12 and 16 of the Memory).

On a third stage, the most relevant aspect of the audit procedure specified by the financial auditors are the periodifications of the current and non current liabilities. In this section, there is reference to the anticipated income corresponding to the television broadcastings and the income for commercialization purposes.

Other “Most Relevant Aspects of the Audit Procedure” commented by the financial auditors are the ones found in the analysis of the Property, Plant and Equipment material impairment, the personnel expenses, the income for competition and subscribers, the income for publicity, the financial liabilities at amortized cost, the structure of debt and its conditions, the recognition of income and expenses, the recoverable value of investment on an investee, the conditioned financial liability and the tax valuation of deferred assets.

Lastly, the teams analysed that do not register any concept whatsoever in the section “Most Relevant Aspects of the Audit Procedure” are: Real Sociedad, C.A Osasuna, Real Betis and Granada F.C.

With respect to the section “Opinion” of the audit reports, it is remarkable to mention that all of the teams from La Liga Santander obtain a favourable opinion except C.D Leganés. The opinion regarding the team is considered with Caveats. Therefore this is the only team that has in its audit report the paragraph “Opinion Fundamentals”. According to the financial auditor’s opinion about the report, the caveats opinion can be mainly explained for three causes: bills received by the team with accounts related to the owner family of the club, the lack of audit procedures of the foundation that is in charge of the youth categories of C.D Leganés and the need of an improvable general administration of the football club since in terms of material and human resources is situated below the recommended standards of quality.

5.3 Other signs

There exists other signs of alert in the firms that may indicate possible accounting manipulations. Special attention must be payed with the appearing of problems related with the authorities. More specifically, with fiscal sanctions, judicial demands or convictions with firm court ruling (Amat, 2017d). This fact implies that if there are sanctions due to fiscal fraud or other causes, the team could have used certain techniques and illegal practices in order to obtain a beneficial position. Therefore, it is possible that in these cases legal techniques of accounting fraud may also be executed.

Some of the latest economic sanctions that have been imposed to the football teams by the Public Treasury Ministry are the ones imposed on November 2016 to Real Madrid F.C, F.C Barcelona, Atlético de Madrid, Sevilla F.C and Valencia F.C by a total amount of 52 million euros (El Mundo, 2016). This economic sanction is explained mainly by the irregular commissions of the taxation that the football teams pay to the football player

agents. Moreover, the European Union ordered in July of 2016 to return back the financial grants considered as illegal and also imposed an economic sanction by a total amount of 68,8 million euros to Real Madrid, F.C Barcelona, Valencia F.C, Athletic Club de Bilbao, C.A. Osasuna, Hércules F.C and Elche F.C under the concept of non-loyal competences (El Plural, 2016).

Lastly, the majority of the football teams reveal from notes 9-19 of their Memories the existence of fiscal inspections and judicial disputes on course for checking purposes of certain taxes considered to be direct and indirect. Therefore, if these teams finally are sanctioned this could mean that they could have tried to distort their accounts and so consequently, this will be the case of a possible sign of accounting fraud.

5.4 Conclusions about the possible signs of accounting fraud

The football sector is a sector that is very predisposed to accounting fraud. It's main indicator that is sensitive to manipulation is the asset due to the elevated weight that it represents and due to the great number of different criteria that can be applied over to the same good with respect to the estimations that it refers to. This allows to value the assets on the most convenient way in order to "camouflage" a negative result or in order to pay less taxes. Moreover, there are certain football clubs that do not reflect the mandatory information of the most important sections of their assets in their Memory, incurring in the omission of information when it the audit procedure takes place. On the other hand, the entry in vigour of the new audit reports and with them, the "Most Relevant Aspects of the Audit Procedure", reflect the risks of material incorrection most significant that the financial auditor has found during the performing of the audit procedure. In this new section, the mandatory audit report is of great utility since it offers an internal perspective of the accounting situation of the football team from the financial auditor's point of view, allowing to visualize the risks that will be impossible to extract from an external analysis perspective.

From this analysis, it is noticeable to remark the Property, Plant and Equipment given that it is one of the sections that can present a high degree of risk since it is easy to manipulate by using estimations, it is the section most cited in the "Relevant Aspects of the Audit Procedure", it has an elevated weight in the Balance Statement and the fact that there are certain teams where there is lack of information in the Memory regarding the changes of criteria. To the previously mentioned, it has to be added that there have been some scandals and fiscal frauds present in the sector considering that the loyal image of the team is not fully portrayed. Therefore, from this work it is extracted that the football teams use certain criteria according to their interests and their convenience, incurring on a possible legal hiding of their accounts.

6. Illegal Public Funding of the Spanish and European teams

Article 107 of the Functioning Treaty of the European Union mentions for the first time, the concept of state financial aids distinguishing the following:

“ Except that the Treaties dispose something different, they will be incompatible with the interior market, in such way that the commercial exchanges between the member States will be affected, the financial aids given by the States or via state funds, under any form that false or threaten to false the competition, and so benefit certain companies or production units”².

After proceeding with three different investigations in deepness, the European Commission came to the conclusion that the public financial aids conceded by the Spanish public institutions to seven teams of professional football had benefited them unfairly against other football clubs, which implies an infraction in the norms about the financial state aids of the European Union.

Consequently, the public Spanish institutions have to recover the amounts of the state illegal aids of the seven football teams that benefited, which are: FC Barcelona, Real Madrid F.C, Valencia F.C, Athletic de Bilbao, Osasuna, Elche and Hércules F.C.

The European Commission investigated the endorsements given by the Instituto Valenciano de Finanzas (IVF) for the loans conceded to three football teams of the Comunidad Valenciana (Valencia FC, Hércules FC and Elche). At that present moment (2009 exercise), these football teams where having financial difficulties and so the public endorsement allowed them to obtain loans in more favourable conditions. This endorsement helped Valencia FC make a capital expansion in that same year. Since they did not pay a remuneration accorded to the endorsements, these football teams benefited from an economic advantage against other teams that had to finance themselves without the help and collaboration of the public institutions. With the purpose of re-establishing equal competence conditions with the non-granted teams, these teams have to return the received advantages that mount to 20,4 million euros in the case of Valencia F.C, 6,1 million euros in the case of Hércules F.C and 3,7 million euros in the case of Elche.

Therefore, the European Commission orders the Instituto Valenciano de Finanzas (IVF) to execute the recuperation order of 23,6 million euros (20,4 million euros of endorsement received plus 2,9 million euros more in concept of interests) in the case of Valencia F.C and the recuperation of 7 million euros in the case of Hércules F.C, but however currently, these sanctions are suspended cautiously.

² Article 107.1 of the Functioning Treaty of the European Union. Information extracted from the BOE (Boletín Oficial del Estado).

However, apart from the Valencian teams that have been immersed in cases of illegal public funding, the European Commission also makes reference to the fiscal privileges enjoyed by other teams such as F.C Barcelona, Real Madrid, Athletic Club de Bilbao and Osasuna, given that these teams are considered as non profit entities and they pay a tax rate over benefits of fits of 5% lower than corporations or publicly held companies. These football teams have benefited from a lower tax rate for more than 20 years and so consequently, each team will have to return a quantity close to 5 million euros.

Moreover, Real Madrid has also been immersed in cases of illegal public financial aid receptions given that apparently, the sports institution has benefited of a land's barter very advantageous with Ayuntamiento de Madrid. The investigation of the European Commission has shown that Real Madrid had the right to receive a compensation of 4,3 million euros, obtaining therefore an advantage of 18,4 million euros.

The team from Madrid was the owner of lands that were valued in 595.000 euros in 1998. In 2011, an exchange of lands took place with the Ayuntamiento de Madrid, considering a price for the lands of 22,7 million euros which implied an extraordinary capital gain for the team of Madrid.

Not only the mentioned Spanish football teams have been the object of investigation for the European Commission. Other teams from Netherlands such as NEC Nijmegen, MVV Maastricht, PSV Eindhoven or FC Den Bosch have been investigated for acting oppositely of what is referred in article 107 of the Functioning Treaty of the European Union.

6.1 Sources of Alternative Funding for the Football Teams. The Crowdlending Model

Since years ago, the world of football has needed to search for new sources of funding in order to reduce their debt levels and continue financing themselves. To do so, some teams have used titles, which are bond emissions from the fixed incomes perceived by the football teams, as it is the case of Racing de Santander that happened a decade ago. Even Valencia F.C may have done it before the arrival of its actual owner. The main handicap for these bonds is that they also have disadvantages especially knowing that it is a product that is usually offered to financial institutions such as banks, insurance companies and mutual funds.

In the exercise of 2016, Atlético de Madrid appealed to these titles with some other European teams, and therefore, ceded the television broadcasting rights and the earnings of football player transfers to a title fund named XXIII Capital Limited.

Even though the football industry generates considerable income amounts with the television broadcasting rights, the publicity or the selling of tickets, these are not sufficient for the football teams in order to deal with all of their expenses. This is explained in the sense that since the beginning, they have been obliged to appeal to financing sources such as bank loans, mutual funds, titles or even, some things might have decided to go public and enter the stock markets via an IPO (Initial Public Offering).

However, the prohibition of the mutual funds in the football industry by FIFA and the crisis of the traditional financial system have led to the football teams looking for new financial formulas in order to cover their budgets. The increasing tendencies for the application of alternative funding models such as the Crowdfunding can be seen as an opportunity for the football teams in order to access to loans given by companies and individuals in order to achieve financing.

The alternative funding not only implies the entry of a new type of investor in the world of football, but moreover is presented as a solution that contributes to reduce the elevated debt of the football teams and try to make them be profitable. Before the appearing of the crisis, the most common and usual type of financing source used by the Spanish football teams used to be the banking credits. From that moment onwards, many of those football teams were not able to return back those loans, leading to very high and elevated levels of debt.

With the arrival of the mutual funds, the football teams interpreted as a solution in order to keep financing as well as a great opportunity to invest in the signing of football players. In May 2015, FIFA prohibited the financing of players via these funds considered as going against the financial fair play and putting in risk the budget stability of the football teams.

7. Conclusions

The football sector has made a huge effort in the last years in order to improve their economic and financial situation as well as their transparency for public reasons.

Regarding their economic and financial situation it can be extracted that there has been improvement during the analysed seasons. However, the indicators and financial ratios calculated throughout the work show that there has been a slight worsening in the season 16-17, being the Working Capital as the most affected ratio. Moreover, with independence of the conditions and the capacities of the sector, certain ratios are found in non-advisable values, implying possible future problems for the sector. Therefore, it can be concluded that the effort performed and the improvement obtained in this aspect is totally reasonable, but there is still room for improvement. It must keep going on, not stopping as the indicators calculated show for the last 16-17 season that has been analysed.

On the other hand, it is noticeable the huge interest that La Liga Santander and other public administrations have regarding the interest to increase the transparency of the Spanish football teams. Moreover, the entry in vigour of the new mandatory audit reports have been of great utility for the performed analysis given that they show the internal situation of the team from a financial auditor's perspective and point of view. From the analysis done in this thesis, it can be extracted that there exists a great elevated risk of possible signs of accounting fraud in the annual accounts of the football teams. This is explained mainly due to the great number of alternatives that are applicable regarding the estimations in the sections of Property, Plant and Equipment,

which is one of the principal assets of the football teams. Alternatively, it has to be mentioned that a total of 8 teams from the 20 teams analysed that compose La Liga Santander do not give mandatory information in their Memories. Therefore, as happens in the financial and economic analysis, it can be concluded that the effort made by the football teams with the purpose of increasing their transparency is noticeable even though there is still room for improvement. These football clubs need to offer more and better information, in quantitative and qualitative terms, to the citizens in a more clear way since in the memory it is common the explanation of certain events but not the obligation of indicating the amounts as it is the case of the fiscal inspections that have been commented in this work.

With the purpose of reducing the levels of debt in the Spanish football, the majority of the teams had to transform themselves in the beginning of the 90's into a new corporate form, the denominated Public Limited Sport Companies. This change in the legal form takes place as a consequence of having negative patrimonial balances in the previous exercises. However, not all of the Spanish teams were forced to perform this transformation; Athletic Club de Bilbao, FC Barcelona, Real Madrid FC and Club Atlético Osasuna kept their legal form until these days given that they have not presented this negative patrimonial balance.

However, this forced change implied the existence of differences in between the Spanish football teams, being the most significant in fiscal matters. The teams that did not transform themselves into Public Limited Sport Companies have benefited in the last years from fiscal advantages given that their Corporate Income Tax situates in 25% whereas the rest of the football teams situate in 30%, so that's why there is a current open investigation by the European Commission. On the opposite side, in the rest of European countries no team has a special treat in tax matters and other obligations.

With respect to the football sector in Europe, the body of the UEFA initiated a series of measures with the purpose of ending with the debts that could put in risk to the football teams. Moreover, these measures were established with the objective of improving the competitiveness of the European leagues as well as allowing to reduce the debt that some teams have with others, with players and with the tax authorities of each and every single country.

On the other hand, when performing this thesis there are some specific limitations that have been found. One of the difficulties that has been found when performing this thesis is that certain clubs like Real Madrid and F.C Barcelona include in their annual accounts certain quantities that are linked to other sports in which the teams participate as can be basketball or handball. In those sections where the teams do not differentiate the amounts that correspond to each sport, neither on the own accounts nor in the Memory, other sources have been used in order to try and find these corresponding amounts. An example of them have been the reports published by La Liga.

Finally, for the elaboration of this thesis some errors have been found regarding the presentation of the information by the football teams. Some of this errors refer to the

sum of quantities that have not been properly calculated or different quantities according to the source that has been investigated such as the annual accounts of the specific team or the report made by La Liga. The most impressive case is the one of C.D. Leganés since its audit report does not accomplish the new mandatory format required and so its Memory is based on a copied model but it does not explain nor fill the data that has been ordered. Therefore, the following rules of improvement are proposed:

- More control for the fulfilment of the applicable regulation regarding the presentation of the annual accounts and the audit reports. Moreover, increase the control of the informed quantities in the annual accounts with the purpose of checking if there are no existing mistakes on the calculations made.
- Obligation of maintaining public the annual accounts of the previous years in order to allow the comparison of data and the observation of the evolution with the pass of the seasons. This proposal appears since it is impressive how most of the football clubs when publishing their current annual accounts they delete the ones from the previous years, making it much harder to follow the economic and financial situation of the teams.
- Improving concordance between the information exposed by La Liga and the member teams.
- The creation of an external body in charge of evaluating the situation of the teams. This means, establishing the fulfilment of determined values in certain indicators in order for the motivation of improvement and maintenance of an adequate economic and financial situation similar to the stress tests that take place with the financial institutions of the banking sector.

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