

**Inspection of  
Salles, Sainz – Grant Thornton, S.C.  
(Headquartered in Mexico City, United Mexican States)**

**Issued by the  
Public Company Accounting Oversight Board  
March 31, 2011**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED  
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH  
SECTIONS 104(g)(2) AND 105(b)(5)(A)  
OF THE SARBANES-OXLEY ACT OF 2002**



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



## INSPECTION OF SALLES, SAINZ – GRANT THORNTON, S.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Salles, Sainz – Grant Thornton, S.C. ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from December 7, 2009 to December 18, 2009 and from January 11, 2010 to January 15, 2010. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	7 (Guadalajara, Juarez City, Merida, Mexico City, Monterrey, Puerto Vallarta, and Queretaro, United Mexican States)
Ownership structure	Partnership (Sociedad civil)
Number of partners	30
Number of professional staff <sup>3/</sup>	398
Number of issuer audit clients <sup>4/</sup>	2
Number of other issuer audits in which the Firm plays a role <sup>5/</sup>	7

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

<sup>5/</sup> The number of other issuer audits encompasses audit work performed by the Firm in engagements for which the Firm was not the principal auditor, including

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audit work.<sup>6/</sup> To achieve that goal, Board inspections include reviews of certain aspects of selected audit work performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audit work, an inspection may identify ways in which particular audit work is deficient, including failures by the firm to identify, or to address appropriately, departures from U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").<sup>7/</sup> It is not the purpose of an inspection, however, to review all of a firm's audit work or to identify every respect in which an audit performed by the firm, or in which the firm played a role, is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audit work, or the relevant issuer financial statements, are free of any deficiencies not specifically described in an inspection report.

#### A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of the financial statements of two issuer audit clients and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

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audits, if any, in which the Firm plays a substantial role as defined in PCAOB Rule 1001(p)(ii).

<sup>6/</sup> This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

<sup>7/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

The inspection team identified what it considered to be audit deficiencies.<sup>8/</sup> The deficiencies identified included deficiencies of such significance that it appeared to the inspection team that, in two of the audits performed by the Firm, the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.<sup>9/</sup> Those deficiencies were –

- (1) the failure to perform sufficient audit procedures to evaluate whether to disclaim an opinion, rather than issue a qualified opinion, in light of a scope limitation;
- (2) the failure to perform sufficient audit procedures to test revenue recognition;
- (3) the failure to perform sufficient audit procedures to evaluate the allowance for doubtful accounts;

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<sup>8/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. *See* AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

<sup>9/</sup> In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. *See* AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

(4) the failure to perform sufficient audit procedures to test the valuation of inventory; and

(5) the failure to perform sufficient audit procedures when using the work of a specialist.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following eight functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6) the Firm's internal inspection program; (7) practices for establishment and communication of audit policies, procedures, and methodologies, including training; and (8) the supervision by the Firm's audit engagement teams of the work performed by foreign affiliates. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC  
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT



**PART IV**

**RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>10/</sup>

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<sup>10/</sup> In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.



January 6, 2011

Mr. George H. Diacont  
Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, DC 20006

Salles, Sainz – Grant Thornton, S.C.  
Periférico Sur 4348  
Col. Jardines del Pedregal  
04500, México, D.F.

T +52 55 5424 6500  
F +52 55 5424 6501  
www.ssgt.com.mx

Re: Salles, Sainz- Grant Thornton, S.C. Response to Draft Report on 2008 Inspection

Dear Mr. Diacont:

We are pleased to provide our response to the Public Company Accounting Oversight Board's (the PCAOB or the Board) draft report on the 2008 inspection of Salles Sainz-Grant Thornton, S.C. (the Draft Report) dated December 6, 2010. We are supportive of the PCAOB inspection process which helps us to identify areas where we can improve our audit performance and/or enhance our ability of improving our quality control system by considering the supervisory approach to oversight established by the Board. We are committed to the highest standards of audit quality.

We continually monitor our audit practice and make changes when improvements are needed. The issues raised in the Draft Report reflect: (1) the fact that accounting and auditing standards are highly complex and require significant professional judgment, and (2) the need to improve the quality control system in certain respects. This is true as it relates to the extent of testing, performing audit procedures, assessing the proper application of accounting principles, determining what constitutes sufficient documentation, and preventing criticisms or potential defects in the quality control system. In many cases, the professional judgments of reasonable and highly competent people could differ.

We have had communication with the PCAOB's inspection team on certain comments included in this Draft Report and we respectfully disagree with certain views of the PCAOB's inspection team. We base our views on significant discussions and timely consultation between the engagement team and the concurring review partner. In addition, the engagement team held timely discussions with specialists within Grant Thornton LLP (GT-US) in accordance with our Firm Policy, in doing so, we reached a proper conclusion. We believe our judgments were appropriately supported and well reasoned. While we believe the PCAOB inspections should continue to challenge judgments and documentation in the audit work, we do not believe that reasonable judgments should be criticized.

While we may not agree with the characterization in the Draft Report of our work or related documentation, we agreed to perform certain additional procedures to supplement our audit procedures in response to the inspection comments, as well as improve and/or strengthen our quality control system in response to the inspection comments. As a result, none of the findings included in the Draft Report resulted in a change of our original overall audit conclusions or affected our reports on the issuers' financial statements.

By recognizing the constructive manner of the inspection process, we have made every effort to cooperate fully, understand the inspection team's views and carefully consider their judgments. We consider the PCAOB's comments as constructive, helpful and have given each careful consideration. Consequently, we have identified steps suited to, in good faith, address the issues seriously and substantially, and determined remedies based on our particular organizational structure and operation.

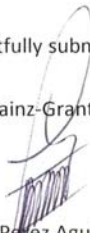
Therefore, we have already developed additional guidance, updated our policies where applicable, modified some checklists and audit programs, implemented expanded monitoring in some key areas, enhanced our training programs to address topics covered by the PCAOB's comments, and strengthened the significance of the performance of the concurring review partner, including our internal inspection process.

We are focused not only on audit performance issues but also on how the Firm designs and implements other aspects of our business that bear on the quality control of our audits.

We appreciate the opportunity to respond to the Draft Report and look forward to future constructive dialogue.

Respectfully submitted,

Salles Sainz-Grant Thornton, S.C.

A handwritten signature in black ink, appearing to read 'Hector Pérez Aguilar', is written over a faint, circular watermark or stamp.

Hector Pérez Aguilar  
Managing Partner