

ORDER

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.¹

III.

On the basis of Respondent's Offer, the Board finds that:

A. Respondent

1. Deloitte Mexico is a partnership organized under the laws of Mexico, and is headquartered in Mexico City, Mexico. The Firm is a foreign registered public accounting firm as that term is defined in PCAOB Rule 1001(f)(ii). The Firm registered with the PCAOB on May 28, 2004, pursuant to Section 102 of the Act and PCAOB rules. The Firm is a member of the Deloitte Touche Tohmatsu Limited global network ("Deloitte Global") and currently serves as the auditor for approximately six issuer audit clients.² Additionally, the Firm performs audit work that other PCAOB registered firms, including member firms of Deloitte Global, use or rely on in issuing audit reports for their

¹ The findings herein are made pursuant to the Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

² See Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii) (defining "issuer").



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issuer clients. The Firm currently plays a substantial role in approximately nine of those audits.³ The Firm has approximately 304 partners and 3,669 employees.

B. Summary

2. The Firm serves as an external auditor for certain issuer clients who file Forms 20-F and Forms 10-K with the U.S. Securities and Exchange Commission. The PCAOB standard concerning audit documentation, AS3, provides that "[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."⁴ In connection with numerous issuer audits ("PCAOB Audits") from 2011 to 2015, the Firm failed to archive a complete and final set of audit documentation by the relevant documentation completion date, thereby violating AS3.

3. As a registered firm, Deloitte Mexico has a responsibility to have a system of quality control for its accounting and auditing practice.⁵ That system of quality control should include policies and procedures to provide reasonable assurance that the work performed by engagement personnel meets applicable professional standards, including with respect to documenting the results of each engagement.⁶ During the period 2011 to 2015, the Firm also violated PCAOB quality control standards by failing to effectively implement policies and procedures to provide it with reasonable assurance that its engagement teams would timely archive audit documentation for PCAOB Audits.

4. A Firm's system of quality control also should include a monitoring element to provide the Firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with

³ See PCAOB Rule 1001(p)(ii) (containing definition of "play a substantial role in the preparation or furnishing of an audit report").

⁴ AS3 ¶ 15. Audit documentation is the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. Audit documentation also may be referred to as work papers or working papers. AS3 ¶ 2. All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant conduct.

⁵ See QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁶ QC §§ 20.17, .18.



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the Firm's policies and procedures.⁷ As a result of its monitoring procedures, the Firm became aware, as early as 2011 and continuing to 2015, that Firm personnel had failed to comply with the Firm's policies and procedures, and with PCAOB standards, regarding timely archiving of audit documentation in numerous PCAOB Audits. Despite identifying late archiving of audit documentation as a significant problem each year from 2011 to 2015, the Firm failed to timely determine corrective actions to be taken and improvements to be made in its quality control system. That failure constituted a further violation of PCAOB quality control standards.⁸

C. The Firm Violated PCAOB Standards in Connection with its Repeated Failures to Timely Archive Audit Documentation from 2011 to 2015

5. PCAOB rules require that registered public accounting firms comply with applicable auditing and related professional practice standards.⁹ PCAOB standards provide, among other things, that the auditor must prepare audit documentation in connection with each engagement conducted pursuant to the standards of the PCAOB.¹⁰ The auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.¹¹ This documentation requirement applies to the work of all those who participate in the engagement.¹² As noted above, "[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."¹³

⁷ QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*; see also QC § 20.07.

⁸ See QC §§ 30.03, .06.

⁹ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.

¹⁰ AS3 ¶ 4.

¹¹ AS3 ¶ 6.

¹² See AS3 ¶ 6.

¹³ AS3 ¶ 15.



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6. From 2011 to 2015, the Firm's engagement teams failed to timely archive audit documentation for numerous PCAOB Audits. As a result of the above-described conduct, the Firm violated AS3.

D. The Firm Violated PCAOB Standards by Failing to Effectively Implement Policies and Procedures to Provide It with Reasonable Assurance Related to Timely Archiving of Audit Work Papers and Failed to Take Timely and Necessary Corrective Action

The Firm Failed to Implement Policies and Procedures to Provide It with Reasonable Assurance That Its Engagement Teams Were Timely Archiving Audit Work Papers in Compliance with PCAOB Standards

7. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.¹⁴ PCAOB quality control standards, in turn, require that a registered firm "shall have a system of quality control for its accounting and auditing practice."¹⁵

8. Pursuant to PCAOB quality control standards, firms should establish policies and procedures to provide reasonable assurance that: (a) "personnel ... perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities;"¹⁶ (b) "the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality,"¹⁷ including with respect to "planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement;"¹⁸ and (c) the firm's quality control policies and procedures "are suitably designed and are being effectively applied."¹⁹

¹⁴ PCAOB Rule 3400T, *Interim Quality Control Standards*.

¹⁵ QC § 20.01; see also QC §§ 20.17 - .20.

¹⁶ QC § 20.09.

¹⁷ QC § 20.17.

¹⁸ QC § 20.18.

¹⁹ QC § 20.20; see also QC § 30.03.

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9. PCAOB quality control standards provide that one required element of a quality control system is monitoring.²⁰ Monitoring involves an ongoing consideration and evaluation of the: (a) relevance and adequacy of the firm's policies and procedures; (b) appropriateness of the firm's guidance materials and any practice aids; (c) effectiveness of professional development activities; and d) compliance with the firm's policies and procedures.²¹ Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective.²²

10. Internal inspection procedures contribute to the monitoring function because findings are evaluated and changes in or clarifications of quality control policies and procedures are considered.²³ The adequacy of and compliance with a firm's quality control system are evaluated by performing such inspection procedures as: (a) summarization of the findings from the inspection procedures, at least annually, and consideration of the systemic causes of findings that indicate improvements are needed, and (b) consideration of inspection findings by appropriate firm management personnel who should also determine that any actions necessary, including necessary modifications to the quality control system, are taken on a timely basis.²⁴

11. Review of work papers after the issuance of the audit report may constitute inspection procedures provided: (a) the review is sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and the firm's quality control policies and procedures, (b) findings of such reviews that may indicate the need to improve compliance with or modify the firm's quality control policies and procedures are periodically summarized, documented, and communicated to the firm's management personnel having the responsibility and authority to make changes in those policies and procedures; (c) the firm's management personnel consider on a timely basis the systemic causes of findings that indicate improvements are needed and determine appropriate actions to be taken; and (d) the firm implements on a timely basis

²⁰ QC § 20.07.

²¹ QC § 30.02; see also QC § 20.20.

²² QC § 30.03.

²³ QC § 30.04.

²⁴ QC § 30.06.

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such planned actions, communicates changes to personnel who might be affected, and follows up to determine that the planned actions were taken.²⁵

The Firm Was Aware for Years That Audit Engagement Teams Were Not Timely Archiving Audit Documentation in Compliance with Professional Standards

12. At all relevant times, the Firm's quality control personnel performed annual internal practice reviews of the Firm's audit practice. The annual internal practice reviews were intended to provide reasonable assurance that the Firm's policies and procedures were relevant, adequate, operating effectively and were being complied with in practice.

13. As part of annual internal practice reviews, the Firm's quality control personnel evaluated, among other things, whether audit engagement teams archived audit work papers in accordance with the Firm's policies and the requirements of AS3 regarding the archiving of audit documentation. The annual internal practice reviews included reviews of PCAOB Audits. Quality control personnel reported the findings of these practice reviews to the Managing Partner of the Firm each year.

14. During its annual practice reviews from 2011 to 2015, the Firm identified numerous problems with timely archiving of audit work papers in connection with PCAOB Audits. After each of those annual practice reviews from 2011 to 2015, the Firm's Practice Review Director informed the Firm's Managing Partner at the time about the archiving problems that had been identified.

15. Notwithstanding the repeated identification of the problems concerning the timely archiving of work papers and the communication of those problems to the Firm's Managing Partner, the Firm's archiving problems persisted.²⁶

16. As a result of the above-described conduct, the Firm violated PCAOB rules and standards by failing to effectively implement policies and procedures to

²⁵ QC § 30.08.

²⁶ Not only did those failures to timely archive work papers for PCAOB Audits violate AS3, they also increased the risk that the work papers might be improperly altered after the documentation completion date. See Miguel Angel Asencio Asencio, PCAOB Rel. No. 105-2016-046 (Dec. 5, 2016).

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provide it with reasonable assurance that its engagement personnel were timely archiving audit documentation in connection with PCAOB Audits.²⁷

The Firm Failed to Take Timely and Necessary Corrective Action Upon Becoming Aware of Repeated Instances of Late Archiving

17. Despite identifying late archiving of audit work papers as a significant problem each year from 2011 to 2015, the Firm failed to timely implement necessary corrective actions to address this problem. As a result, the Firm failed to adequately monitor compliance with its quality control policies and procedures regarding archiving of audit work papers and timely determine corrective actions to be taken and improvements to be made to its quality control system.²⁸

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Galaz, Yamazaki, Ruiz Urquiza, S.C. is censured.
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$750,000 is imposed upon Galaz, Yamazaki, Ruiz Urquiza, S.C. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Galaz, Yamazaki, Ruiz Urquiza, S.C. shall pay this civil money penalty within 10 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter which identifies Galaz, Yamazaki, Ruiz Urquiza, S.C. as a respondent in these proceedings, sets forth the title and PCAOB Release number of

²⁷ See QC § 20.17.

²⁸ See QC § 20.20; QC § 30.03, .06.

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these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

C. Pursuant to Sections 105(c)(4)(F) and (G) of the Act and PCAOB Rules 5300(a)(6) and (9), the Board orders that:

1. Undertakings: The Firm shall carry out the following Undertakings:

(a) *Initial Certification.*

Within ten (10) days of the entry of this Order, the Firm shall provide a certification, signed by its Managing Partner, stating that the Firm has adopted systems designed to provide reasonable assurance that, for any audit, review or specified procedures conducted pursuant to PCAOB rules and standards, a complete and final set of audit documentation is archived by the documentation completion date for that audit or review, and that any additions to that documentation after the documentation completion date are made only in accordance with PCAOB rules and standards.

(b) *Subsequent Certifications.*

(1) Within ninety (90) days of the entry of this Order, the Firm shall provide a certification, signed by its Managing Partner, stating that all audit professionals involved in the performance of PCAOB Audits have received 4 hours of additional training concerning AS3, including archiving of audit documentation in accordance with AS3.

(2) No less than quarterly for one (1) year after the date of this Order, the Firm shall provide a certification, signed by its Managing Partner, stating that: (i) the Firm has examined whether, with respect to all audits, reviews, and specified procedures conducted by the Firm pursuant to PCAOB rules and standards and for which the documentation completion date has occurred within the prior three months, a complete and final set of audit documentation has been timely archived in accordance with PCAOB standards and in accordance with the Firm's audit policies and procedures; and (ii) with respect to those audits, reviews, and specified procedures the Firm is not aware of, or has reported to the PCAOB's staff, any noncompliance with PCAOB rules and

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standards and/or the Firm's audit policies regarding the timely archiving of work papers.

(c) *Provision of Order.* No later than 30 days after the date of this Order, the Firm shall provide an electronic or paper copy of this Order to all of its associated persons who are audit professionals in the Firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 5, 2016