2019 Inspection Castillo Miranda y Compañía, S.C.

(Headquartered in Mexico City, United Mexican States)

September 30, 2021

PCAOB
Public Company Accounting Oversight Board

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

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2019 Inspection

During the Public Company Accounting Oversight Board ("PCAOB")'s 2019 inspection of Castillo Miranda y Compañía, S.C., we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years generally ending in 2017. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk based characteristics, including issuer and firm considerations. In certain situations we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

Overview of the 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm's issuer audits as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Reviewed

	2019	2017
Firm Data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures[1]	0	1
Total issuer audits in which the firm was not the principal auditor	3	4
Total engagement partners on issuer audit work[2]	3	10
Audits Reviewed		
Total audits reviewed[3]	3	3
Audits in which the firm was the principal auditor	1	2
Audits in which the firm was not the principal auditor	2	1
Integrated audits of financial statements and internal control over financial reporting ("ICFR")	1	1
Audits with Part I.A deficiencies	1	1

[1] Although the firm had no issuer audit clients at the outset of the inspection, the firm had issued at least one audit report with respect to an issuer since the preceding inspection.

[2] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[3] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019		2017	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Cash and cash equivalents	2	**Cash and cash equivalents**	3
Revenue and related accounts	2	**Revenue and related accounts**	2
Long-lived assets	2	**Long-lived assets**	1
Inventory	1	**Inventory**	1
		Certain assets	1

Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("the Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work (1) supporting the firm's opinion on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Long-Lived Assets, Depreciation and Amortization**, **Revenue**, and **Inventory**.

Description of the deficiencies identified

With respect to **Long-Lived Assets**, **Depreciation and Amortization**, and **Revenue**:

The firm tested the design and operating effectiveness of information technology general controls ("ITGCs") over the issuer's general ledger and other systems ("applications") in order to rely on the accuracy and completeness of data produced by the applications that was used in performing the firm's substantive testing of long-lived assets, depreciation and amortization, and revenue. The firm selected for testing ITGCs over logical access, including privileged access. The following deficiencies were identified:

- The firm did not sufficiently test privileged access controls for two applications because the firm did not establish that all users with privileged access were included in the population used for the testing. In addition, the firm did not test the operating effectiveness of logical access controls, including privileged access, for the remaining applications. (AS 2301.19 and .21)

- The firm did not sufficiently test the operating effectiveness of change management controls because the firm did not test the accuracy and completeness of the population of modifications to applications. (AS 2301.21)

- The firm did not identify and test any controls related to segregation of duties over modifications to applications. (AS 2301.16)

In performing its substantive testing, the firm used data produced by the issuer and planned to test the accuracy and completeness of the data by testing relevant controls. The firm did not sufficiently test controls over the accuracy and completeness of the data, given these deficiencies in its testing of ITGCs. (AS 2301.16, .18, and .37)

With respect to **Long-Lived Assets**:

For certain inputs used in the issuer's value in use ("VIU") calculations for one of the issuer's segments, the firm did not identify and evaluate the significance of a departure from applicable accounting standards related to the use of certain assumptions by the issuer to develop the inputs. (AS 2810.30 and .31) In addition, the firm did not test the accuracy and completeness of estimated operating costs and certain other data that the issuer provided to issuer-engaged specialists for their use in developing certain inputs. (AS 1210.12)

For another segment's VIU calculations, the firm did not identify and evaluate the significance of a departure from applicable accounting standards related to the issuer excluding an estimate of net cash flows, if any, to be received (or paid) for the disposal of that segment's long-lived assets at the end of their useful lives. (AS 2810.30)

The firm selected a sample of additions to long-lived assets. The firm did not test certain transactions selected for testing. In addition, with respect to assets under construction, the firm did not test the existence of these assets and the status of the projects, including whether the construction had been delayed or suspended, which could indicate potential impairment. (AS 2301.08)

The firm did not perform sufficient procedures to test disposals because it limited its procedures to testing the authorization of each disposal selected for testing. (AS 2301.08, .16, .18, and .37)

With respect to **Depreciation and Amortization**:

The firm did not identify and evaluate the significance of a departure from applicable accounting standards related to the use of certain assumptions by the issuer to develop certain inputs used to calculate depreciation and amortization. (AS 2810.30 and .31)

As discussed above related to certain inputs, the firm did not test the accuracy and completeness of estimated operating and other costs that the issuer provided to issuer-engaged specialists for their use in developing the inputs, which were used in the depreciation and amortization calculations. (AS 1210.12)

With respect to **Revenue**:

The issuer recognized certain revenue at the time risk of loss was transferred to the customer and also recorded subsequent adjustments to revenue based on information related to quality issues and the final sales price. The following deficiencies were identified:

- The firm selected a sample of sales transactions during the year to test. The firm did not test the prices or evaluate the terms and conditions. (AS 2301.08)
- The firm did not test any adjustments made in the fourth quarter. (AS 2301.08)
- The firm selected a sample of sales transactions to test cut-off. The firm did not test certain transactions selected for testing. (AS 2301.08)

With respect to **Inventory**:

The issuer disclosed that inventory was subject to the risk of asset misappropriation by both internal and external parties. The firm did not identify this risk or perform any procedures to address this risk. (AS 2301.08)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) or fulfill the objectives of its role in the audit(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the audit reviewed where the firm was the principal auditor, the firm did not make certain required communications to the issuer's audit committee related to (1) the management representation letter and (2) the name, location, and planned responsibilities of an other independent public accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees* and AS 2805, *Management Representations*.

- In the audit reviewed where the firm was the principal auditor, the firm's audit report did not include numerous required elements. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In the audit reviewed where the firm was the principal auditor, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Appendix A: Firm's Response to the 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, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

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 some cases, the result may be that none of a firm's response is made publicly available.

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. 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.

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August 11, 2021

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

Re: Response to Part I of the Draft Report on the 2019 Inspection of Castillo Miranda y Compañía, S.C.

Dear Mr. Botic:

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2019 inspection of Castillo Miranda y Compañía. S.C.

We have evaluated each of the matters described in Part I.A and I.B of the Draft Report and have taken appropriate actions under both PCAOB standards and our policies, including all necessary steps to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

We remain committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and our underlying quality control systems. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Respectfully submitted,

C.P.C. Gustavo Gabriel Llamas Monjardín
Managing Partner