

June 30th, 2011

Laura V. Carrillo De Anda  
WASC Project Director  
CETYS Universidad

Dear Laura:

Pursuant to my letter dated April 30<sup>th</sup>, 2009 regarding the main differences between the Mexican and U.S. auditing standards, issued at the request of the Western Association of Schools and Colleges (WASC), I would like to inform you that there have not been changes to its contents.

I am attaching said letter.

Additionally, I would like to briefly comment on the main discrepancies between the Mexican Financial Information Standards (MEX-GAAP) and the U.S. Generally Accepted Accounting Principles (US-GAAP) for information purposes, as it could also be valuable to WASC as they understand the Mexican accounting and auditing environment.

#### Inflationary accounting

MEX-GAAP obligates to use inflationary accounting to recognize the effects of inflation (B-10), considering that Mexico used to be a high-inflation country. On the other hand US-GAAP uses historical information and provides guidelines to reveal the effects of inflation (FASB-89).

#### Statement of Cash Flow

US-GAAP accepts two methods of presentation of the Statement of Cash Flow: direct and indirect method (FAS-95), whereas MEX-GAAP only uses one method (B-12).

#### Interests on Construction of Assets

Interests on loans for construction of assets could be optionally included in the cost of construction according to MEX-GAAP (C-6), as opposed to US-GAAP where interests are mandatory included in said cost (FAS-34).

#### Costs of Research and Development and Preoperative Expenses

According to MEX-GAAP, costs of research are registered as a cost or expense of the current year and development costs are registered as an intangible asset (C-8). In contrast, US-GAAP consider Research and Development as part of the costs and expenses of said year.

Deferred taxes

Deferred taxes are registered as non-current asset in accordance with MEX-GAAP (D-4), and according to US-GAAP are registered as current or non-current depending on the cause or origin of the deferred tax (FAS-109).

Profit sharing is registered as a non-operative expense for MEX-GAAP purposes and as an operative expense from a US-GAAP point of view.

Long Term Investment Valuation

According to MEX-GAAP, when ownership is less than 10%, the cost method is applied. The participation method is applied when ownership is between 10% to 50%. (B-8).

US-GAAP applies participation method when ownership is between 20% to 50% (APB-18).

Consolidation

Consolidation of financial statements is mandatory when entity has control over subsidiaries, i.e. when ownership of shares is higher than 50%, when it has power over operation and financing policies and/or when it can name members of the board from a MEX-GAAP point of view (B-8).

Only ownership higher of 50% is cause of consolidation of financial statements according to US-GAAP (FAS-94).

Minority interests


According to MEX-GAAP it should be registered in the last section of equity (C-11), on the other hand, it is not mentioned in US-GAAP, however is customarily included between equity and liabilities.

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As a conclusion, accounting principles of Mexico and the U.S. are very similar and the tendency is that the differences are gradually being eliminated.

Should you have any comments regarding the contents of this letter, please contact us.

Regards

  
Miguel A. Lopez Robles  
*Partner*  
*Almaraz Tamayo y Cia*  
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*Almaraz Tamayo y Cía., S.C.*  
Contadores Públicos y Consultores

April 30th, 2009

Laura V. Carrillo De Anda  
WASC Project Director  
CETYS Universidad

Dear Laura:

Pursuant to the request by the Western Association of Schools and Colleges (WASC) that we provide the main differences between Mexican and U.S. auditing standards, below you will find the most relevant discrepancies as well as some comments:

The Mexican Auditing Standards, as most financial rules and regulations, are adjusting to globalization.

### **BACKGROUND**

Presently, there is a very important movement to adopt international standards, for financial reporting as well as for auditing.

Even though U.S. GAAP are still valid in the U.S. (the most important capital market in the World), Mexico has taken the necessary steps to adopt the International Financial Reporting Standards (IFRS). Currently, the Securities and Exchange Commission in the U.S. (SEC) allows international corporations with investments in said country to report using IFRS, without the need to reconcile with U.S. GAAP.

The European Union, Canada, as well as various countries from Asia and Latin America have already adopted or are adapting the IFRS, as well as of the International Auditing Standards.

### **COMPARISON**

Due to the above, the Auditing Standards Commission in Mexico has already decided to adopt the International Standards for Auditing (ISA).

While Mexico has made formal, public and authoritative declaration that it will incorporate the principles of the relevant standards of ISA, the U.S. has not formally accepted or taken the necessary steps to comply with ISA.

In summary, the audit standards of Mexico and the U.S. are very similar with minimum divergences, being the most important the following:

Communication with Audit Committees

Mexican audit standards, does not meet with U.S. section 380, Communication with Audit Committees, although in practice and in other standards the communication is included, there is not a specific standard covering this issue.

Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement

Although the issue of knowledge of business is dealt with in several Audit Standards and Procedures, none addresses it specifically and the requirements for auditors to ensure that less experienced professionals obtain adequate knowledge of business transactions is not explicitly set forth.

Audit Evidence

Mexican audit standards specifically address the issue of audit evidence, however, contrary to U.S. audit standards little guidance is provided in the quantity and quality of audit evidence to be obtained.

**CONCLUSION**


In conclusion, the audit standards of Mexico and the U.S. are very similar, however, the tendency in Mexico as in most major countries are to adapt to international standards, while in the U.S. the audit standards are partly governed by Public Company Accounting Oversight Board (PCAOB) and it does not have in its plans to convert or adapt to ISAs.

Still, the main objective of the audit and the auditors remain the same, to assure that the financial information of an entity complied with the country accounting principles. In this regard, the World Bank Report observed that Mexican audit standards are "well developed".

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Regards

  
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