

An aerial photograph of the Angel of Independence statue in Mexico City, featuring a large crowd of people in the plaza. The image is decorated with various geometric shapes in orange, red, and grey, some with white outlines, scattered across the top and right sides.

# Our focus on audit quality

## 2022 Audit Quality Report

Mexico



# Contents

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# To our stakeholders

The stories that continue to make headlines — the continuously evolving COVID-19 pandemic, the Russian government's invasion of Ukraine, the Great Resignation, climate change, the continued fight for equity in business and government, the impact of inflation in our economy and worldwide, and many more — have left an indelible mark on us as individuals, as a firm, and as a society. We are proud of the resilience, empathy, and commitment demonstrated by our people over the past year. Together, we fully embraced **The New Equation**, our global strategy — underscoring our purpose to **build trust in society and solve important problems**. Day after day, our community of solvers came together to help build trust, take on societal challenges, and make a meaningful impact in our communities and the business sector.

Against the backdrop of an ever-changing and challenging world, we have kept trust at the heart of our business, and our values have continued to drive us forward. As you'll read in this report:

- **We performed our work with integrity and a relentless focus on quality.** We continued to leverage the resources and know-how of the US firm, and made significant investments in technology and our people. We continued to implement best practices that were adapted into our system of quality management to maintain and continually enhance quality — and have seen the positive impact on our inspection results.
- **We showed our people that we care.** We provided them with greater flexibility in how and where they work and found more ways to recognize their contributions with meaningful rewards.
- **We made a difference through our ongoing commitment to diversity, equity, and inclusion.** Central to our strategy is a culture of belonging that continues to evolve.
- **We worked together to keep pace with an unprecedented rate of change.** Our audit professionals, with the support of our Chief Auditor and Quality Management Networks and our National Office, have continued to make a difference for our clients and the capital markets. In addition, we continued to build trust by participating in regulatory and standard setting activities, and through engagement with stakeholders.
- **We reimagined the possible to deliver Tomorrow's audit, today.** We continue to identify new ways for our people to work with one another and with clients to maintain quality and transform the audit experience.

Audit quality is and always will be our number one priority — no matter the challenges and opportunities presented in the months and years ahead. Thank you for engaging with us on quality, and for your interest in our continued progress.



**Ana Paula Jiménez**  
Senior Partner



**Ricardo Moreno**  
Trust Solutions Leader

# 2022<sup>1</sup> Year in review



Manager to Staff

1 to 5.3

<sup>1</sup>MDs= Managing directors

# 2022<sup>1</sup> Year in review





# Our culture and values

## Trust Solutions

Trust has never been more important than it is today. [The New Equation](#), our global strategy, is about being relentlessly committed to quality and focused on our clients as they work to build trust and deliver sustained business outcomes. Our Trust Solutions segment combines our assurance and tax compliance and reporting lines of service as well as our tax and legal consulting capabilities. As part of the **largest trust practice in the world**, Trust Solutions brings together our passionate community of solvers in unexpected ways to deliver the audit and tax services that our brand is built on and to explore new opportunities to build trust, solve important problems, and further our commitment to quality.

Under The New Equation we are investing in new capabilities in areas that are central to our strategy — including environmental, social, and governance (ESG). We are also teaming across the firm and transforming the way we work, finding new ways to deliver quality and value by harnessing the power of our people and technology. We continue to effectively draw on the deep technical knowledge and experience of our non-audit professionals to develop a deeper understanding of our audit clients' processes and financial reporting risks, which leads to a better audit, including more insightful feedback to management and the audit committee.

Through the New Equation we are driving sustainable change. We're committed. We're transparent and accountable. And we take action. In 2021, we committed with PwC US to [Tomorrow Takes Trust](#), a landmark program to embed trust-based principles into the core of today and tomorrow's businesses. This includes the [PwC Trust Leadership Institute](#), an immersive learning experience that aims to equip business leaders with the skills to help build trust around the challenges and realities of the future. Business leaders in Mexico have access to this Institute.

Our [PwC Mexico Diversity & Inclusion snapshot](#), which is included as a supplement to [PwC US's annual Purpose Report](#), details our commitments to diversity, equity, and inclusion (DEI), operating responsibly in sustainable ways, and driving a human-led, tech-powered approach.

“Trust is foundational and at PwC, we are set up to help our clients strengthen such foundation to be able to succeed in the future”

—Ana Paula Jiménez



# Tone at the top

We<sup>2</sup> are a purpose-led and values-driven organization, and the role the firm plays has always been underpinned by the need for trust and our ability to deliver quality services, valuable insights, and meaningful solutions. We look at tone at the top broadly, considering areas such as how we win new work, accept new clients, develop and share thought leadership, recruit and develop our people, and create an inclusive and respectful work environment.

**Our purpose is to build trust in society and solve important problems.**

We expect our professionals to exhibit the core values underlying our purpose as these values define the expectations we have for working with each other and our clients:



Act with  
integrity



Make a  
difference



Care



Work  
together



Reimagine  
the possible

While we recognize that our professionals are working in a complex environment with competing demands, our brand and professional reputation are built on delivering quality. As a result, topics such as quality and accountability are an ongoing focus of our leadership communications, which are used to reinforce our commitment to our purpose and values and the importance of audit quality to the success of our firm. Key messages are communicated to our people by our Senior Partner and our leadership team and are reinforced by engagement partners.



“Audit quality” means that we consistently:

- comply with auditing standards;
- exercise professional skepticism;
- use our experience to identify and resolve issues timely; and
- apply a deep and broad understanding of our clients’ businesses and the financial environment in which they operate in identifying and responding to risks relevant to our audit.



Our audit quality principles are achieved through our audit quality practices and mean that we:

- ask tough questions;
- apply an objective and skeptical mindset;
- embrace the supervision and review process as a way to continuously improve;
- stay current on professional standards;
- have timely, meaningful exchanges with audit committees and management;
- plan our work and resolve issues in a timely and thorough fashion;
- remain alert for issues that need deeper analysis;
- act with professionalism; and
- recognize our role in the capital markets.

## Ethics, independence, and objectivity

### Ethics

Ethical behavior is the foundation for building trust. We have a code of conduct and supporting policies that identify specific actions or behaviors expected of each partner and employee. We also provide multiple ways for our people to ask questions and obtain policy guidance or voice concerns, including an Ethics HelpLine, through which concerns may be reported anonymously, if preferred.

Doing business the right way, conducting business with integrity, maintaining independence, safeguarding the information entrusted to us, preserving necessary records, and competing and winning fairly in the marketplace are key components of our ethics policies, training, and awareness activities. We train our partners and employees on these policies during our required new hire, new manager, new partner, and annual training. We also require our partners and employees to confirm their compliance with our policies and applicable laws and regulations during our annual compliance confirmation process.



## Independence and objectivity

As auditors, we are required to be independent from our audit clients. Independence, in fact and appearance, sets the foundation for us to exercise professional skepticism and make objective conclusions without being affected by influences that could compromise our professional judgment.

Our independence policy is based on the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants and is supplemented to comply with the requirements of Mexican and US standard setters and regulators.

We support our people in maintaining independence by providing systems and processes that:

- track the entities for which independence is required;
- enable assessments and approvals for providing permissible non-audit services;
- facilitate the assessment and monitoring of joint business relationships;
- facilitate the evaluation, pre-approval, and monitoring of securities and other financial arrangements held by partners, managers, and others to whom independence rules apply;
- support independence-related consultations; and
- document our professionals' annual compliance confirmation.

To further mitigate potential independence risk in the execution of non-audit services and to enhance audit committee pre-approval communications, our process for reviewing and authorizing certain non-audit services for SEC-issuer<sup>3</sup> audit clients includes:

- the review and assessment of the scope of services for permissibility by an independence specialist;
- the review of the related audit committee pre-approval communications, when certain criteria are met; and
- the performance of pre-engagement independence coaching sessions and independence in-flight reviews for certain engagements.



In addition, to support the implementation of our processes and reinforce the individual behaviors necessary to maintaining independence, our professionals are required to take training courses tailored to their level and the services they provide.

In FY22, we launched Personal independence at PwC, a public resource that explains the personal independence requirements applicable to PwC MX partners, employees, third-party contractors, and their immediate family members and what they need to do to comply and maintain personal independence.

A team of dedicated professionals:

- maintains our independence policies, processes, and controls;
- develops our annual independence training; and
- serves as a resource for our people when questions arise.

In FY22, this team engaged in **29** formal independence-related consultations, and we continue to encourage a culture of more voluntary consultations with our independence specialists.

We also have a framework that identifies specific actions or behaviors that are expected of each partner and staff member to be in compliance with independence policies and regulatory requirements related to personal, service, and other relationships. Increased accountability is responsive to the heightened expectations of stakeholders. The framework includes consequences that, following review, are applied when violations or exceptions occur.

We report independence rule exceptions to those charged with governance at our affected clients so that the impact on the firm's independence can be assessed.

## Partner rotation

Partner rotation strikes a balance between bringing “fresh eyes” to the audit and maintaining a deep understanding of the client's operations, in part, through continuity of other team members. Our practice leaders use systems and processes to manage current and successor partners' portfolios, including understanding their skills and capacity to maintain audit quality. Public company and financial entity lead audit partners and quality review partners are required to rotate off engagements every five years according to the National Banking and Securities Commission (CNBV by its Spanish acronym) requirements as well as to the US Securities and Exchange Commission (SEC) requirements for Foreign Private Issuers (FPI) and significant audit components.<sup>4</sup> We also have rotation policies (between 5 and 10 years) for auxiliary partners and partners on audit engagements not subject to the CNBV or SEC rotation requirements depending on the type of the engagement.





## Accountability and incentives

Partners are evaluated based on their contributions towards our strategic agenda, One Firm teaming, and their individual goals, inclusive of quality and use of technology. In holding partners, including lead audit partners, quality review partners, auxiliary partners, and specialist partners accountable, our accountability program considers the results of external and/or internal inspections in audit areas requiring their review. Partner accomplishments are measured based on the partner's relative performance against established goals. Partners receive a share of the firm's profits based on their level of responsibility, the firm's performance, and the partner's performance. Through audit quality team awards, we further recognize and incentivize partners who meet certain criteria in delivering quality and demonstrate behaviors that are consistent with our strategic agenda. Our audit partners are not evaluated or compensated for selling non-audit services to their audit clients.

Our non-partner professionals are assessed against their annual strategic objectives as determined in the Staff Expectations Placemat, and the dimensions of the PwC Professional framework discussed on page 20. They are eligible to participate in our annual performance bonus plan based, in part, on the achievement of quality goals and objectives.

In cases that require it, partners, managing directors, and directors/managers are required to implement a responsive action plan to address quality issues. Implementation of the plan is monitored by leaders.

As we emphasize to our people, we strive to do the right thing whether we're dealing with clients, with our stakeholders, or with each other. This is the foundation of our professional reputation, status, and brand, and we will not compromise it. We have made it clear — no client, no fee, and no opportunity is worth compromising our values.



# Our audit focus

Our audit practice is divided into three major groups: (1) a group dedicated to serving financial services clients, (2) a group dedicated to serving non financial services public clients, and (3) a group called Private Clients, dedicated to serving non financial services private clients. The first two groups include SEC clients as well as clients that are public or financial entities in the Mexican market and/or other foreign public markets. Having teams dedicated to each type of client supports a consistent approach and collective team experience, facilitates knowledge sharing, and allows for uniform policies across each category of client. With this structure, we look to further drive audit quality, standardization, industry focus, and differentiation in the marketplace.

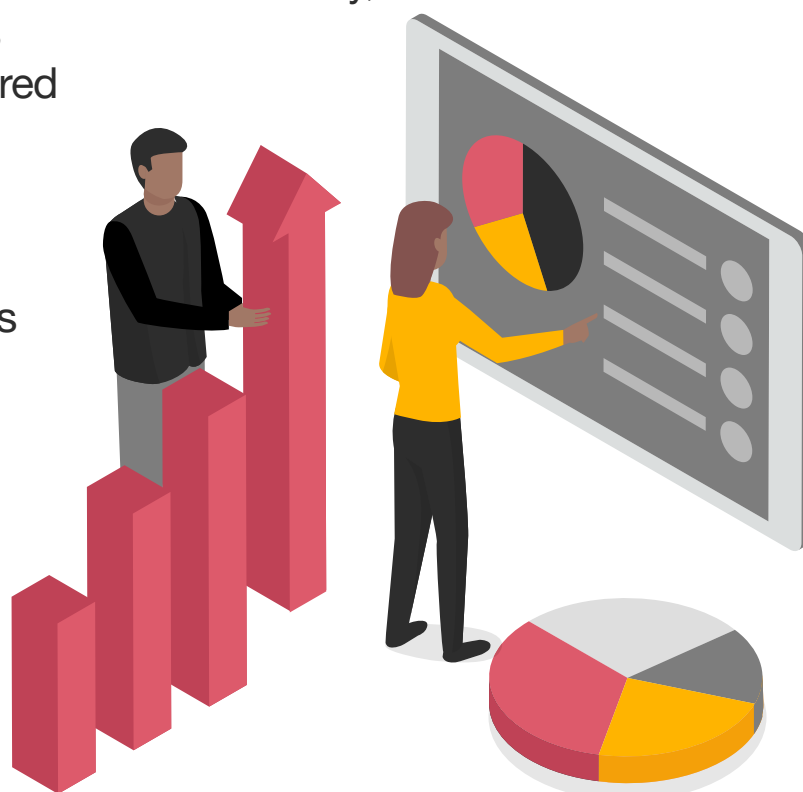
Read more about our Private Company Services at:

[www.pwc.com/mx/empresasprivadas](http://www.pwc.com/mx/empresasprivadas)

## Considerations in undertaking an audit engagement

Our approval processes govern the acceptance of new audit clients and continuance of existing audit clients (annual and/or as-needed assessments) based on the audit team's responses to a series of questions, which, in aggregate, form the basis of the risk assessment. For the acceptance of new audit clients, our process requires approvals by lead audit partners, quality management partners, and market leadership. For existing client continuance assessments, the extent and level of approvals depend on the nature of the client and results of the required risk assessment. Additionally, an event-driven reassessment is performed when certain events occur, or become known, that were not considered at the time of the latest assessment in order to reevaluate our relationship with the client.

We consider that the basis for performing a quality audit includes the availability of resources with the right skills, experience, and capacity, as well as whether the amount of audit fees is commensurate with the expected level of effort. We only accept new or continue existing audit relationships when supported by our assessment of risks and we believe our audit procedures can be satisfactorily designed and executed.




Our client acceptance and continuance procedures consider:

- the applicable professional and regulatory standards as compared to our professional competence and capabilities;
- the integrity, conduct, and reputation of key management, board members, and significant shareholders;
- the nature of the company's operations, its industry, and applicable laws and regulations;
- the potential impact on independence, conflicts of interest, and/or relationships with other entities and whether there are circumstances that might impair our independence or objectivity as auditors of the company; and
- the timing and resource needs of the engagement, including any potential constraints that would affect our ability to comply with applicable standards.

We engage with audit committees and/or members of management in a fair and balanced discussion of the level of fees that is necessary to perform an appropriately scoped, risk-based audit. At times, we have made some difficult decisions to give up audit engagements when fees have not been sufficient to support a sustainable quality audit, and we will continue to do so.







# Our role in the financial reporting ecosystem

In the Mexican financial reporting ecosystem, our main regulators are the CNBV for issuers and financial sector entities; the National Insurance and Bonding Commission (CNSF by its Spanish acronym) for insurance entities; the Tax Administration System (SAT by its Spanish acronym) for tax reports; and the SEC and the Public Company Accounting Oversight Board (PCAOB) for SEC issuer audit clients.

Capital markets and the auditing profession benefit from a strong regulatory environment. For example, our regulators have investor protection as part of their mission. The US regulators share the same mission. We believe a strong audit profession and regulatory environment facilitate transparency and instill confidence in the capital markets. However, our role in the financial reporting ecosystem goes beyond the issuance of audit reports.

During FY22, we issued **over 70** audit reports that included key audit matters (KAMs) in accordance with International Standards on Auditing (ISAs) framework and **2** audit reports that included critical audit matters (CAMs) in accordance with the PCAOB's revised reporting standards. The requirement for auditors to communicate KAMs or CAMs is intended to be responsive to calls from investors to understand more about the auditor's judgments and have insight into the auditor's approach to an audit and related communications with the audit committee. Our experience has been that communicating KAMs or CAMs in our audit reports complements robust financial reporting by management and appropriate oversight of the financial reporting process by the audit committee.

As auditors, we provide value in several ways, including through the independent assessments and judgments we make when performing audits. This includes having the courage and integrity to ask difficult questions, challenge questionable accounting, and voice concerns. These actions are important to providing quality audits, which is our most important responsibility. As part of these actions, we are influencing our profession by promoting compliance with the respective accounting framework, and thereby reducing the number of qualified opinions we issue to our non-public engagements, as we believe this contributes to good governance practices that enhance the financial reporting ecosystem.



# Active participation in regulatory and standard setting activities

The dynamic environment in which we operate includes adapting to new accounting and auditing standards, and a wide range of active regulatory and policy initiatives in Mexico and around the globe. We play an active role in these initiatives, both as an individual firm and in collaboration with others by working with the Mexican Institute of Public Accountants (IMCP by its Spanish acronym) in the Vice Presidency of Legislation (responsible for monitoring and issuing professional regulations in Mexico) and collaborating on Commissions such as the Auditing and Attestation Standards Commission (CONAA by its Spanish acronym), the Financial Reporting Standards Commission (CONIF by its Spanish acronym), the Quality Technical Commission, the Tax Audit Report Commission, as well as on the Mexican Board for the Research and Development of Financial Reporting Standards (CINIF by its Spanish acronym) Advisory Technical Committee, and others. Experienced individuals in our firm who are subject matter specialists contribute as leaders and members of those and other organizations working toward a similar purpose.

We monitor and evaluate the implications of new local and global financial reporting standards and regulations including, but not limited to, International Financial Reporting Standards (IFRS), Mexican Financial Reporting Standards (MFRS), and tax and regulatory topics. For example, in FY22, by participating in the Vice Presidency of the Tax Audit Report Commission, we collaborated with others in the profession to understand the implications of the reintroduced obligation in the Mexican Federal Tax Code that will require companies meeting certain conditions to file an audited tax report with the SAT for calendar years ending on or after December 31, 2022.







## Thought leadership

In addition, through presentations, client interactions, publications, videos, and webcasts, we keep our audit teams, clients, and other stakeholders informed of standard-setting activity, tax and regulatory matters, and other developments, providing the guidance and insights needed to maintain quality financial reporting.

Through Consult@ble, our online paid subscription platform, we share technical training with clients regarding accounting, financial, and tax updates via e-learning courses, monthly webinars, virtual classrooms, and technical publications.

In FY22, our National Office released publications covering a wide variety of topics, including:

- new standards or amendments to accounting standards, CNBV accounting principles, and regulatory reporting;
- ongoing accounting impacts related to the labor reform in Mexico;
- insights on key accounting and reporting issues relating to, for example, supply chain financing arrangements (reverse factoring), cloud computing arrangements, interest rate (IBOR) reform, cryptocurrencies, business combinations under common control, and ESG-related matters, including climate-related disclosures; and
- other regulatory updates, such as the changes in the tax reporting requirements.

Around **320** tax, audit, technical, and regulatory communications and publications were shared internally with our partners and staff, which were viewed or downloaded more than **35,600 times**.

Please see our [website](#) for our publicly-available content.

# Stakeholder engagement

During FY22, the Governance Insights Center (GIC) was established in Mexico. We have a team of independent and trusted professionals who are relentlessly focused on helping companies tackle corporate governance issues by providing the insights that the boards of directors need. Its objective is to promote the culture of good corporate governance, to the benefit of companies, the capital markets, and ultimately society, as good governance supports sustainable corporate success and economic growth.

Through the GIC, our clients have access to peer exchanges, events, and materials that are helpful for the boards of directors and their committees to meet the challenges of their critical roles and duties and that are intended to enhance their leadership on today's most pressing governance challenges.

The GIC assists board members to address evolving expectations and regulations, strengthening the bridge between investors, directors, and corporate management. In addition, the GIC supports audit committee members to be more strategic, informed, and effective in their oversight role, which has become more expansive and complex.

With the support of the US GIC and our team of professionals, we:

- conduct individual board and committee educational sessions to enhance the board's understanding of contemporary issues, sharing our research, latest activities, and practical insights;
- publish governance newsletters that give corporate directors fresh perspectives on topics including macroeconomic and corporate governance trends;
- provide, through webcasts and publications, the need-to-know highlights for audit committees to oversee financial reporting; and
- host events and attend meetings with clients to discuss the latest governance topics and foster sharing of effective practices among peers.

For more information, see [Governance Insights Center México](#)

While we engage in a wide variety of governance and investor activities, we place a significant focus on the audit committee because it has the primary responsibility for oversight of an issuer's financial reporting process, as well as the appointment, performance, and independence of the external auditor. Through timely, meaningful exchanges, our audit teams obtain the perspectives of their clients' audit committees and fulfill their professional responsibilities to communicate certain items to them (see page 38). We encourage audit committees to ask candid questions and engage in an open dialogue to help foster an environment of accountability and to enhance audit quality. We also frequently share observations regarding other matters related to the audit committee's roles and practices, such as the company's management and governance of financial reporting.



# Non-audit services

By bringing together our combined audit, tax, ESG, and digital assurance capabilities, we are well-positioned to use our established understanding of our clients and the environments in which they operate to deliver permissible trust solutions to our clients. These services, including tax compliance and reporting, digital assurance and transparency, and ESG reporting, address issues by which organizations are increasingly measured by stakeholders.

As described on page 8, our protocols and monitoring processes are designed to address the risks to independence from providing permissible non-audit services to our audit clients. The majority of our non-audit services revenue comes from clients with whom we have no audit relationship.

## Our role in action

### Environmental, social, and governance

Investors and stakeholders in the capital markets are increasingly looking to information about a company's ESG-related risks and opportunities to assess value. We are taking a leading approach to ESG. Through PwC Network representation on the Sustainability Accounting Standards Board (SASB) and on the Financial Stability Board's Task Force on Climate-Related Financial Disclosures, we have contributed to the development of ESG reporting metrics. Through numerous publications and one-on-one client discussions, we provide timely, relevant thought leadership to our clients and stakeholders addressing issues related to the [IFRS proposed regulations on ESG reporting](#), the [SEC's proposed rules to enhance and standardize climate-related disclosures](#), for example, and the evolution of local ESG reporting requirements.

We also support our audit teams with ESG-related resources and guidance. For example, we provided our audit and tax teams with additional training and guidance to help them identify and consider ESG-related risk factors applicable to their clients and whether there is an impact to their assessment of the risks of material misstatement. Further, we provided our audit teams materials and guidance to support timely, meaningful exchanges with our clients' audit committees regarding ESG-related matters.

We deliver other trust solutions using methodology specifically designed for ESG attestation engagements, which enhances the credibility of accurate and reliable ESG data. We have issued review and examination reports on select ESG data to provide additional confidence to the users of that data. We will continue to deliver new and expanded permissible ESG trust solutions in areas including sustainability and climate-related risks; diversity, equity, and inclusion; and supply chain integrity.

We also continue to take key steps on our own [ESG journey](#).

For more information, see our [ESG resources](#).



# Our people

Our hiring standards include a structured interview process with behavior-based questions built from The PwC Professional framework, an assessment of academic records, a review of relevant prior experience (if applicable), and background checks. In FY22, we hired **134** entry-level audit professionals and three experienced professionals to supplement our workforce. Amid historic rates of voluntary turnover in job markets and professions across the world, including public accounting, we have taken meaningful steps to continue to attract and retain top talent, as described on page 22.

The number of audit professionals<sup>5</sup> was **944** in FY22, 1,037<sup>6</sup> in FY21, and 1,246<sup>6</sup> in FY20. The decrease in FY22 is reflective of many factors, including increasing rates of voluntary turnover and lower hiring levels, which are on balance with the audit efficiencies realized through the use of technology, as well as our selectivity in the companies we agree to audit. Partners and managers<sup>7</sup> comprise **21%** of the total for FY22 and approximately 20% for FY21 and FY20.

## Audit partners' average years of experience at PwC:

**28**

**FY22**

**28<sup>8</sup>**

FY21

**28<sup>8</sup>**

FY20

## Professional development

We are committed to our audit professionals' ongoing development, which is fundamental to our ability to deliver quality services. Throughout their career, our audit professionals are provided with career development opportunities, virtual and in-person classroom learning, on-demand learning, and on-the-job real time coaching and development. Through our strategic deployment efforts, we assign our professionals to engagements across Trust Solutions, allowing us to meet the needs of our clients and create additional career development and mobility opportunities for our people. How we assign our professionals to engagements takes into account our flexible new ways of working as described on page 22.

Achieving a professional credential supports our firm's commitment to quality through consistent examination and certification standards. Obtaining a Mexican CPA certification issued by the IMCP, an important element of our audit professionals' career progression, is a prerequisite for progression to audit partner. Our staff are incentivized to attain their credential well before they are admitted to partnership, through preparation courses, continuing education, and the firm's payment of the enrollment fees, in accordance with the firm's policies.





### ***Staff Expectations Placemat***

Each year, based on strategic priorities, we establish a plan for each staff category that includes specific objectives and expected behaviors and metrics. The plan is incorporated into a *Staff Expectations Placemat* that is made available to our people and establishes specific targets related to upskilling, training and development, project management, and ethics and independence compliance.

### ***The PwC Professional framework***

The *PwC Professional framework* is our global leadership development framework, which provides a single set of expectations across our segments, roles, and territories and helps us to fulfill our purpose, drive our strategy, and live our values and behaviors.

The *PwC Professional framework* assesses skills and competencies, which are expressed as observable behaviors across five dimensions: Relationships, Business acumen, Technical and digital, Global & inclusive, and Whole leadership. It also includes specific quality dimensions to guide our non-partner audit professionals in building critical skills and behaviors related to delivering audit quality, such as professional skepticism, review and supervision, auditing skills, issues management, and accounting and technical knowledge. The performance of audit team members, excluding partners, are assessed against the dimensions of the *PwC Professional framework*.

Each non-partner audit professional is aligned to a Development Team composed of a Relationship Leader, Career Coach, and Talent Consultant. This team is a support system our staff can turn to for day-to-day and strategic guidance. Relationship Leaders play a primary role in the professional growth of our staff by providing mentoring and career support by continuing to review and discuss staff progression against the five dimensions.



# Our people experience

We are focused on being a leading developer of talent with a desired outcome of quality client services, greater engagement of our people, and an inclusive environment that allows our people to reach their full potential. As we compete to retain employees and bring in new talent, we know and respect that each individual has different priorities.

We embed **continuous listening** into our people strategy, leveraging our Trust Solutions Staff Council, Global Pulse Survey, and other feedback channels to gather insights from our people to help positively influence their experience.

We have continued to make significant investments in the digital upskilling of our people, providing:

- numerous learning tools to expand the use of digital solutions on audits and foster a mindset of continual improvement and innovation;
- a variety of engaging learning channels, including podcasts, to help build digital IQ through personalized curriculum;
- virtual Digital Academies focused on data wrangling, automation, and data visualization; and
- a program to obtain multiple knowledge and skill badges, including Human-Centered Design, Digital Acumen, and Digital Learning Paths.

Our audit teams use the **Digital Lab** to find, build, and share digital solutions that support tech-enabling the audit. This, together with investments in digital upskilling, has helped us create innovative, digitally fluent audit teams.

**Connectivity** is front and center of everything we do. The pandemic demonstrated the importance of connectivity in a virtual work environment, and our experiences throughout have helped inform our approach to keeping our people connected. We have provided resources to our teams that include creative ways to connect virtually. We also reimagined the experience for our new joiners through a virtual onboarding program that includes the training, tools, and resources for our new joiners to help them be successful as they begin working for the firm. Our people also have access to the **Difference Makers**, an approach that gives us a fresh way of working together through new behaviors, activities, techniques, and virtual tools.

**Recognition** of our people is an important way to share our success with them. In that respect, we look for ways to recognize the resilience that our people have demonstrated during the uncertain times of the pandemic, while continuing to deliver quality and meet the needs of the business. The rewards are not just monetary; recognition also comes from their peers and other team members as well as the use of our virtual platforms to express gratitude.

This year we launched My+, which will provide our people the power to build personalized careers, from choosing the types of assignments they work on, to the hours they work, to where they work and the benefits they need.

**Flexibility and well-being** are all about putting the power of the firm’s resources behind our people and helping support their journey to greater well-being with science-backed concepts, practices, and tools. We continue to focus on *Be Well, Work Well*, our investment in well-being, including creating team plans aligned with our new ways of working that account for all team members’ work preferences and flexibility needs. This year we increased our well-being support, adding mental health resources and incentives.

Providing our people with the ability to meet their professional and personal commitments is a critical component of our people's experience. With extensive guidance and best-in-class training resources, we have supported our people in working virtually when needed. We shared working practices to leverage firm-approved technologies and added new technology to many of our offices to support hybrid interactions between remote and in-person participants.

“We invest in our people's development as a key factor to deliver quality audits, we train them on technical and non technical subjects while we provide a unique professional experience.”

- Ricardo Moreno

**Retention**

Turnover in the public accounting profession is often high because as accounting standards and regulations change, accountants are in demand, and the development and experience we provide make our staff highly sought after in the external market. Our voluntary turnover can fluctuate based on several factors, including external market demand.

**Average annual voluntary turnover rate of audit professionals by staff level**

	FY22	FY21 <sup>9</sup>	FY20 <sup>9</sup>
Managers	13.8%	6.6%	5.3%
Senior associates	15.5%	9.3%	10.5%
Associates <sup>10</sup>	20.4%	13.8%	12.4%
<b>Total</b>	<b>18.1%</b>	<b>11.7%</b>	<b>11.0%</b>

In response to increasing voluntary turnover rates, we took several key steps to further promote retention of our audit professionals, by not only providing them with greater flexibility in how and where they work, but also by finding more ways to recognize their contributions with meaningful rewards. We executed mid-year pay increases as part of our commitment to competitive pay, as well as mid-year promotions, in appropriate circumstances, to more quickly promote those professionals already demonstrating skills at the next level. We empowered our audit professionals to award greater financial incentives to recognize audit team members who made exceptional contributions to deliver quality and exemplified our values.

## Global People Survey

In Spring of 2022, the PwC Network administered our Global People Survey, which among other components, measures the pride, advocacy, commitment, and overall satisfaction of our people (a measurement we call our People Engagement Index (PEI)). Many internal and external factors have the potential to impact our PEI; market demand for our talent and our total rewards and benefit programs are two factors that impact the commitment and overall satisfaction of our people. Our PEI has a substantial influence on how we define and adjust our people initiatives.

Our PEI in FY22 for the Trust Solutions practice was **86%**. We believe this result reflects our continued commitment to the well-being of our people and our unwavering focus on our purpose and values.

## Diversity, equity, and inclusion

Diversity, equity and inclusion (DEI) is an essential aspect of our purpose, culture, and values. PwC Mexico is made up of **more than 2,600 people** of different genders, nationalities, backgrounds, religions, ages, sexual orientations, and beliefs, which contribute to the unique richness of our organizational culture. Our DEI strategy drives equity within the firm from recruitment to partnership — with our systems, programs, and processes designed to support all of our people so that every person has the same opportunities to grow to their full potential.

Central to our strategy is a culture of belonging that continues to evolve — one where we move from awareness to empathy and demonstrate inclusive leadership that cultivates a greater sense of trust.

As described in the [PwC US's annual Purpose Report](#), which includes a [PwC Mexico Diversity & Inclusion snapshot](#), we have committed to disclosing indicators relevant to our business, rather than limiting data to only show representation of our total workforce and leadership. The objective of releasing this report is to hold ourselves accountable for accelerating progress against our DEI strategy and goals.

Additionally, we have added additional near-term goals to hold ourselves accountable to and accelerate progress toward our long-term aspirational goals focused on workforce representation, talent attraction, and the makeup of our partnership. And while we have made progress, we acknowledge that there is still more work to be done.

As a result of our efforts to promote an inclusive environment and best practices to attract diverse talent, as of FY22 women comprise **51%** of our workforce. Our FY23 new partner class did not include women, so we are working hard through different leadership programs focused on women at different stages in their careers to close this gap. The Mexican Leadership Team still has **50%** female representation.

“Equality is central  
in our philosophy and  
we actively promote it”

- Lázaro Peña,  
Purpose & Inclusion Leader



Our diversity and inclusion efforts help our people succeed by focusing on key areas:

## Career journey

We focus on driving a consistent experience for all of our people throughout their time at the firm from recruiting to entrance into the partnership, and beyond.

Key programs include:

- collaborating with high schools and colleges providing mentorship and workshops to offer students employability and technology skills beyond their official programs;
- continuing efforts to recruit in public universities and diverse communities;
- providing high-performing university students an opportunity to learn about our firm and the professional services industry while developing critical professional and technical skills through participation in recruiting fairs;
- supporting women and other underrepresented minorities throughout their career with targeted programs and events with each other and for developing their leadership skills;
- providing coaching, development opportunities, and admission process support to diverse partner candidates, and
- performing succession planning so that diverse candidates have access to the right experiences and credentials.

## Culture of belonging

Establishing a culture of belonging across PwC requires a shift from awareness to empathy and emotional connections to human stories and experiences, cultivating a greater sense of trust.

## Talent attraction

Changing the trajectory of representation in the firm requires concerted change at entry and experienced-level recruiting, rethinking both where and how we source talent.



## Pathway to partnership

Fostering a diverse and inclusive partnership requires deliberate cultivation of our pipeline and intentionality in progression.

To learn more about PwC's purpose and inclusion strategy, as well as the awards and recognition we have received for our achievements in this area, please visit [www.pwc.com/mx/es/acerca-nosotros/diversidad.html](https://www.pwc.com/mx/es/acerca-nosotros/diversidad.html)

This year we took a natural step forward by formally evolving from Diversity & Inclusion to DEI. This evolution to DEI elevates our long history of working toward more equitable workplaces and communities.

We continue to introduce learning resources, provide opportunities for connection and candid conversations, and execute specialized programs for all employees — especially our diverse and female colleagues. In April 2022, we launched the Inclusive Mindset Badge designed to help our people grow personally and professionally, developing the skills that help them progress as inclusive, purpose-led, and value-driven leaders.

Our digital platform, My Story, Your Story, continues to inspire deeper connections, grow relationships and communities, and allow our people to be better allies. It also connects our 5 Inclusion Networks. Our Inclusion Networks are dynamic communities of PwC professionals based on shared backgrounds, experiences, or interests.

### Our journey as a responsible business

We also focus on being a changemaker within the business community and in society. We empower our people to invest their passion and skills in causes that are important to them and in support of nonprofit organizations and educational institutions tackling social justice issues.

Through different programs, we created inspiring experiences for diverse students, igniting their passion for technology and helping to break down the barriers to employability. Through our **nearly 850** volunteering hours in FY22, we reached **8,324** individuals. We provided online mentoring sessions to high school and university students, taught employability skills to university students, and launched a series of videos to help younger students understand how emerging technologies can help solve important social challenges.

In FY22, our people used their time, skills, and experiences to help build a more equitable society. Through our pro bono commitments, we spent **around 2,300** hours supporting nonprofits focused on social issues, including education, technology accessibility, food security, poverty, and gender inclusion.

“In an increasingly unequal society, as business leaders and community members we must be intentional in generating equal growth opportunities to all, both within our firm and in our communities”

- Gabriela Bustamante,  
Purpose & Inclusion Director





## Learning

Continuous learning is a fundamental aspect of our culture. The composition of our audit teams provides newer team members the opportunity to work with more seasoned members, which promotes meaningful on-the-job training. Judgment is honed by observing how seasoned auditors approach issue identification, management, and resolution.

Learning that occurs through on-the-job supervision, review, and mentoring is supplemented through participation in classroom, virtual, and on-demand training programs.

Our **Learning and Development Team** collaborates closely with firm leadership so training is responsive to developments impacting our audits, including changes in the practice. Investments in learning and our people's experience are critical components of our strategy. The way we deliver training evolves with the restructuring and digitizing of content — both to make it more accessible and dynamic and to align with what audit work is done, by whom, when, and how.

Our National Office Learning and Development Team is dedicated to developing course content and updating our training curriculum based on feedback obtained from:

- our National Office on new accounting, regulatory and auditing standards, and financial reporting developments;
- our Chief Auditor network;
- specialists in particular areas or sectors;
- our internal inspections process, consultations on accounting and auditing matters, and other inputs related to monitoring quality;
- the CNBV, PCAOB, and other regulators; and
- surveys, focus groups with engagement team members, and post-course assessments.

We require our audit professionals to attend training courses specifically targeted to their role and experience level. These courses integrate auditing and accounting concepts, and use simulation-based elements, breakout sessions, and polling questions for a more effective learning experience. Our partners, managing directors, and directors/managers also receive training related to new accounting standards and tax updates, when applicable. In addition, we offer our professionals training on non-technical topics, such as project management, issues management, auditing while working remotely, and working in virtual teams.





Completion of mandatory auditing, accounting, and annual independence, ethics, and compliance training is a component of individual performance. Mandatory auditing and accounting training courses include a learning assessment, which requires the participant to earn a passing score to be granted credit for course completion to either meet the mandatory training requirements and/or earn Mexican CPE, as required. Failure to complete mandatory training can impact an audit professional’s performance evaluation and compensation. Audit professionals who hold a Mexican CPA certification are required to achieve a minimum number of hours of continuing professional education to comply with the Continuing Professional Education (DPC by its Spanish acronym) Standard. Compliance with the DPC Standard is also required to maintain the SAT registration for tax reports.

The amount of annually mandated auditing and accounting training can vary from year to year based on a number of factors, including the issuance of new accounting and auditing standards, the nature and extent of feedback obtained, as previously described, and the impact of our ongoing curriculum redesign, which includes the use of digital tools to deliver training more efficiently.

**Average training hours completed per audit professional:**

<b>101</b>	<b>95</b>	<b>116</b>
<b>FY22</b>	FY21	FY20



Protected time for learning continues to be a key element of our strategy and has evolved from quarterly Infinite Learning days to year round uninterrupted time each Friday afternoon. “Fridays your way” encourages our professionals to invest in their own learning — whether it’s focusing on technical accounting and auditing, digital upskilling, and/or professional development.



# Assurance Quality Committee

The Assurance Quality Committee (AQC) consists of partners who have the collective experience and deep understanding of the regulatory environment applicable to entities in Mexico. The purpose of the AQC is to drive our quality strategy.

The AQC has been a valuable resource for our Trust Solutions leadership team over the course of FY22 — acting as a sounding board on our quality initiatives, use of technology, our approach to ESG, ways to improve the cadence of the audit process, including the additional tools and resources that will be required to comply with the obligation to file an audited tax report with the SAT for calendar years ending on or after December 31, 2022, and the role of the auditor in relation to fraud and going concern in an audit of financial statements in light of standard setter initiatives and related global interest.







# Our audit approach

Performing audits in accordance with professional standards is an important way that we fulfill our purpose to build trust in society and solve important problems. Each year we issue audit reports on the financial statements of public and non-public companies. We conduct our audits following applicable auditing standards in order to obtain reasonable assurance regarding whether the financial statements are presented fairly, in all material respects. Although reasonable assurance is a high level of assurance, it is not a guarantee. An audit involves examining the underlying audit evidence, including information and reports provided by the company, on a test basis. In some circumstances, we also rely on — and for some companies, test and opine on — a company's internal control over financial reporting, which due to inherent limitations may or may not prevent or detect misstatements. We are proud of the important role that audit opinions play in the capital markets, and how they help us fulfill our broader purpose as a firm.

Rooted in our core values, [Tomorrow's audit, today](#) reflects our view of the future — people-led, enhanced by powerful technology, and digitally amplified. While technology is a key part of how we're reimagining and revolutionizing the audit experience, it's our people — with their unique blend of audit and digital acumen — that set us apart. Driven by a **quality-first, purpose-always** mindset, our people execute an audit approach that focuses on the following:

**Simplification:** We provide the resources and guidance our teams need to take out unnecessary complexity and focus on the areas of risk.

**Standardization:** Through the consistent adoption of our tools and guidance, we are able to appropriately scale and standardize.

**Specialization:** Our audit teams have relevant industry and technical knowledge, and they leverage specialists and consult with the National Office, when appropriate, to bring the right knowledge to the audit at the right time.

**Automation:** Our people are upskilled to understand and use our innovative technology and are empowered to create custom automations.

We have an ongoing process to assess our audit approach, including the technology and tools used by our teams, so that it continues to align with our strategy, including driving audit quality.



# FY22 developments



Over the past year, we updated our audit methodology and incorporated new functionalities in Aura to reflect the changes and new requirements of ISA 315 (revised) “Identifying and assessing the risks of material misstatement through understanding the entity and its environment.” We also issued guidance and specific training to promote the consistent adoption of ISA 315 (revised) on all our audit engagements. We continue issuing and updating guidance addressing matters such as: the risks of material misstatement related to the disclosure of climate-related commitments and impacts; and the financial reporting considerations, audit risks, and other implications of the Russian government's invasion of Ukraine, including related sanctions, supply chain disruptions, and volatility in the financial markets.



We have also continued to reimagine the end-to-end audit experience by:

- providing additional training, guidance, examples, and tools to assist teams in effectively planning and phasing audit work, understanding data flows, testing manual information technology general and configurable controls, and more;
- further expanding our data extraction and data analytics capabilities related to risk assessment and procedures in certain audit areas; and
- providing tailored support to select audit teams in adopting the most impactful tools and technology for their audit.

In addition, we addressed other auditing, accounting, and reporting matters, such as mandating additional training related to certain complex income tax accounting topics.



# Our audit technology

Our technology development is purposeful and focused on the end-to-end audit experience. Our comprehensive audit platform delivers enhanced quality, more consistent execution, and improved issue identification and communication.

**Aura**, the PwC Network's cloud-based global audit platform, is used by auditors across the Network (**more than 100,000** auditors across the PwC Network use Aura), driving quality and consistency on a global basis. Aura helps our teams deliver an audit tailored to our clients' business. It enables sequential and intuitive audit plan development and risk assessment through each phase of the audit, leveraging embedded industry-specific content that drives consistency in execution. A targeted audit plan specifies risk levels, controls reliance, and substantive testing. Smart dashboards show the impact of scoping decisions and the progress of the audit. We continue to make enhancements to Aura that further drive quality and standardization, support improved project management, and facilitate timely execution and review.

The PwC Network's **digital document sharing tools** allow clients to quickly and securely share audit documents and deliverables. We also ease the burden of tracking the status of deliverables and resolving issues by automatically flagging and tracking outstanding items and issues identified through the audit for more immediate attention and resolution. Clients are also able to see audit adjustments, control deficiencies, and statutory audit progress for all locations — in real time. Our global digital collaboration tools also streamline, standardize, and automate real-time communication and collaboration between group and component audit teams. The result: secure document exchange, enhanced status tracking, and issue management capabilities between group and component audit teams.

**Automated data extraction**, using our direct-feed data ingestion tools, can locally or remotely extract, compress, encrypt, and transfer data securely. Data handoffs are eliminated, thereby reducing room for error. By accessing our client's data directly, we can better analyze and assess risks, spot anomalies, and direct audit focus and testing.

The PwC Network's award-winning **data visualization, analytics, and auditing tools** are designed to enhance our risk assessment process and facilitate automated testing and data validation to support the different phases of the audit — from planning, to execution, through completion. For example, audit teams can access specialized tools to identify journal entries to test as part of the procedures performed to address the risk of fraud as required by the auditing standards. Similarly, our investments tools help audit teams analyze investment portfolio data and price testing results. We continue to expand our capabilities, harnessing the power of data to further enhance our audit quality. Sophisticated analytics facilitate risk assessment and help us spot anomalies or new trends, using a robust set of analytical tools. Audit teams can easily navigate between numerous content-themed visualization dashboards and detailed data schedules, prompting more focused audit analysis and testing.

Our audit professionals have utilized digital assets more than **6,000 times** in FY22.

Our engagement teams use our **secure cloud-based** space to work with data and analytics and share visualizations internally and externally with our clients.

In June 2022, the first **Digital Week** was held in Mexico, which is an event that aims to show how the elements of our digital transformation, together with the firm's digitalization actions, align with what is happening in the market and to reaffirm our commitment to our innovation and technology strategy. We held five sessions focused on certain industries: Telecommunications, Financial Services, Consumer Products, Energy, and Automotive with representation by legacy Assurance partners and panelists from client companies or companies of interest. It was broadcasted live from our PwC studio via our YouTube channel.

**People-led innovation.** The continued digital upskilling of our audit teams allows us to build on our base data analysis and other technological capabilities to enhance quality and increase efficiency, and improve the audit experience. Our skilled audit teams are able to use our technology platforms to dig deeper into their client's data, surfacing audit-related matters, and providing relevant perspectives and insights as a result of audit procedures.

Our commitment to digital upskilling and people-led innovation is helping redefine the profession. We're developing more well-rounded audit team members who are skilled in both digital and audit acumen, and this, in turn, enhances quality and the audit experience. Automations developed by our people reduce time-intensive routine tasks, allowing more time for performing analysis. Custom data visualizations bring insights to life, and quality is enhanced because work is done more consistently.

As part of the **Your Tomorrow Adoption Network**, **30** of our audit team members and Data Assurance & Transparency specialists have taken enhanced training for digital skills. These influencers work with or are embedded within our audit teams and are applying digital capabilities to each audit, as well as developing new digital solutions for the firm.

Digital Lab, our unique technology-sharing community, has been integral to our innovation journey. Digital Lab allows our audit team members to find, build, and share digital assets to enhance efficiency and audit quality. **Approximately 33%** of our audit professionals were active<sup>11</sup> in Digital Lab at some point during FY22 and utilized digital assets more than **6,000 times** in FY22.

## Data security

Our standards of behavior emphasize the importance of integrity and require our people to protect the confidentiality of client data and information. Our information security policies outline controls every staff member and partner must comply with in using or building technologies to support the audit. We use security technology and processes so confidential data is shared only on a need-to-know basis. Our Security Operations Center is tasked with monitoring and managing PwC's global security systems that establish the security of firm and client assets and data. Teams of highly skilled professionals are focused on threat detection and response around the globe.





# Our audit teams

We are committed to putting the right people with the right skill sets in the right place at the right time. One way we do this is by leveraging our talent sourcing platform, which provides visibility into our audit professionals’ experiences and interests so that we can efficiently and appropriately staff client engagements.

Leverage ratio of audit-related hours for audit team members<sup>12</sup>

	FY22	FY21 <sup>13</sup>	FY20 <sup>13</sup>
Partner to Manager	1 to 3.8	1 to 3.1	1 to 3.4
Manager to Staff	1 to 5.3	1 to 7.1	1 to 6.5

## Quality Review Partners

Quality Review Partners (QRPs) and QRP assistants are a component of our quality control system. Individuals serving in these roles must have the requisite technical knowledge, training, experience, and time to perform the role effectively. All QRPs and QRP assistants are required to take specific, relevant training before assuming their role.

QRPs and, for certain engagements, QRP assistants are involved in the most important aspects of the audit, including reviewing the audit plan, considering the firm’s independence, evaluating the significant risks of material misstatement in the financial statements and our responses to those risks, and reviewing certain accounting, auditing, and financial reporting and disclosure matters.

# The consultation process and use of specialists

## Specialists

As part of our collaborative culture, audit teams utilize firm specialists from both segments of the firm in various accounting and auditing areas (e.g., the potential impact of complex income tax matters; valuation processes related to the use of fair value in financial reporting and impairment calculations; information technology innovations; cybersecurity threats; and forensic investigations) and never have to go it alone.

Percentage of audit hours provided by specialists:



## Our decision-making philosophy

To conduct quality audits, audit teams must reason through difficult accounting and financial reporting issues and reach appropriate judgments and conclusions. While accounting standards provide specific guidance for many situations, in other situations there is plenty of “gray.” One of our core values is working together, and this is a key part of the process we follow. When difficult matters arise, the audit partner is expected to leverage the full quality support network of the firm. This includes, among others, our National Office, Chief Auditor Network, Assurance Quality Management Network, the QRP, and partners who lead the audit practice.





**The National Office**

Our National Office comprises technical accounting, auditing, and regulatory and reporting specialists who work collaboratively with the US National Office as well as the Global Network. For example, for technical content we actively participate with the Global Accounting and Consulting Services network in knowledge sharing to drive consistency in IFRS practices. Our National Office specialists play a vital role in keeping our policies and guidance in these areas current. Our policies identify matters that require National Office consultation and are updated as appropriate. Additionally, audit teams are encouraged to voluntarily consult with the National Office whenever they believe they could benefit from their insights. In the event an audit partner initially has a different viewpoint than our National Office, a resolution process provides guidance for elevating the discussion until agreement can be reached.

**Ratio of partners/managing directors serving in technical support roles<sup>14</sup> to the total number of audit partners/managing directors:**



The ratio of our partners/managing directors serving in technical support roles to the total number of audit partners/managing directors is based on our periodic evaluation of our technical support resource needs and leverage model to ensure sufficient, quality technical resources are available for our audit teams. This ratio also reflects the resources needed to prepare guidance, policies, and publications to address new accounting and auditing standards or other developments impacting financial reporting.

**Chief Auditor Network**

Our Chief Auditor Network comprises partners and professionals who support audit teams in designing effective and efficient audit approaches, including reinforcing key learning points from audit training and guidance and matters noted during inspection cycles. Our Chief Auditor Network contributes to market and industry group meetings focused on audit quality topics and serves as instructors for many of our audit related training courses. Chief Auditor Network also provides advice on auditing methodology matters through review of certain aspects of selected audit engagements before those audits are completed and through facilitating targeted workshops with audit teams as they plan their audit procedures. In addition, the Chief Auditor Network executes pre-issuance review programs such as Audit Quality Reviews (AQRs), perform targeted reach-outs to audit teams on specific audit quality related topics, engage in informal consultations with engagement teams, support both internal and external inspection processes, assist with National Office projects, promote local implementation of firm-wide audit quality initiatives, and provide additional support to Market leadership on audit quality initiatives. Through these activities, the Chief Auditor Network is able to support audit teams in enhancing audit quality and provide leaders with insights on overall audit quality trends.



Quality Management Network

Our Quality Management Network comprises **10** experienced audit partners serving in local, regional, and national roles in support of our audit practice. Some of these partners participate in our Assurance Quality Committee referred to on page 28. Quality Management professionals are responsible for the design, development, and implementation of our quality management policies and guidance.

The design of our Quality Management Network allows the Quality Management partners to provide support to audit partners and teams as they navigate complex issues with our clients and other stakeholders. A Quality Management partner is assigned to each audit partner and assists in assessing risks (such as whether to undertake or continue an audit engagement) and applying the firm’s quality management policies. Audit teams are required to consult with Quality Management on a variety of topics, including specific circumstances related to the determination of materiality, evaluation of errors, potential illegal acts, going concern considerations, principal auditor considerations, and other matters. Given the levels of collective experience, audit teams are encouraged to consult with Quality Management when they become aware of complex matters to evaluate the risks, consider the potential impact, and gather insight even when consultation may not be required.

Percentage of Public Interest Entity<sup>15</sup> audit client financial statements that were not restated:

96.7%

FY22

(3 restated)

98.8%

FY21

(1 restated)

96.7%

FY20

(3 restated)



# Our audit process

Our top-down, risk-based audit starts with obtaining an understanding of the company's industry and business, financial systems, processes, and internal controls. We combine deep, dynamic, tech-enabled analysis with the digital skills, industry and technical knowledge, and the professional judgment of our people to obtain this understanding.

Our risk assessment procedures establish our understanding of business processes, inform our assessment of risks inherent in the financial statements, influence the controls we select for testing, and guide our substantive audit response. Our risk assessment begins in the planning phase of the audit and continues through the issuance of our report.

Using data either obtained via **automated data extraction** or provided by our client via our **digital document sharing tools**, our audit teams apply advanced data science, visualization, and guided risk assessment to analyze full populations and focus work on areas of relevant risk. With the knowledge obtained in understanding the business, our audit teams analyze data and transactions to identify likely sources of potential misstatements. The timely involvement of audit partners and directors/managers during planning and risk assessment facilitates the appropriate consideration of materiality, audit risk, and planned response. Completing audit planning by established milestones allows our audit teams to better allocate and manage resources and avoid late surprises by performing audit work earlier in the audit cycle.

With **Aura**, our teams are able to develop a more targeted audit plan that specifies risk levels, controls reliance, and substantive testing. Smart dashboards show the impact of scoping decisions and progress of the audit more quickly. Our audit teams leverage our **real-time project management dashboards** to drive further transparency regarding status and issue resolution with the client.

When we audit the financial statements of a company with operations in multiple locations or business units (i.e., components), our audit approach, including the nature, timing, and extent of our involvement in the work of component auditors, is influenced by our understanding of and reliance on the component auditors, the significance of the component, and identified significant risks of material misstatement to the group financial statements. We continually refine how we use the work of component auditors and the level of our involvement in their work so that all components of our audits meet the relevant standards and satisfy our own quality expectations.

Throughout the audit, we stay connected with our clients to anticipate and resolve complex issues and discuss relevant emerging topics and data trends. Our tools provide a place where our clients' teams and ours can communicate, share documents, and see real-time status updates.

“Our audit approach keeps evolving to take into account use of technology and changes in regulations while maintaining sound judgment and professional skepticism.”

- Ricardo Moreno

Audit committees have an important role, being charged with oversight of the appointment, performance, and independence of auditors as required by the Circular Única de Auditores Externos or CUAE, that sets the obligations and responsibilities to be fulfilled by the audit committees and external auditors of public companies (issuers) and financial sector entities. Through timely, meaningful exchanges, we obtain the audit committee's perspectives and fulfill our professional responsibilities to communicate certain items to them, as well as provide all necessary information as required by the CUAE.

We encourage audit committees to ask us candid questions and engage in an open dialogue to help foster an environment of accountability. For issuers and financial sector entity audits, our communications occur several times during the year.

### **Examples of topics we commonly discuss with the audit committee include:**

- our independence, including, when appropriate, the potential effects of proposed non-audit services;
- our role and the roles of management and the audit committee;
- the audit committee's views about fraud risks in the company;
- our audit approach, including our risk assessment process, consideration of fraud risks, and results;
- the scope of our audit, including multi-location considerations, when applicable;
- our client service team, including specialists;
- our planned use of the work of others;
- our timeline and communication plan;
- audit fees;
- management's accounting policies and practices, including adoption of new accounting standards and significant transactions;
- audit observations and insights related to relevant trending topics, including economic developments and new laws and regulations affecting the company;
- the quality of the company's financial reporting;
- our compliance with the applicable quality control standards;
- audit results, including areas of significant estimates and judgments; and
- firm PCAOB inspection results related to FPI clients.





We also frequently share observations regarding other matters related to the audit committee's roles and practices, such as the company's management and governance over financial reporting.

Our audit teams comply with the auditor obligations of the CUAE to timely provide the audit committees of our audit clients with:

- if applicable, a report of irregularities or aspects that are identified during the course of the audit that could affect the stability, liquidity, solvency, or business continuity of the issuers or financial sector entities, based on their professional judgment;
- a declaration of independence and summary of observations, which need to be delivered no later than 120 days for financial sector entities, or 5 months for issuers, after the company's year-end;
- a consent letter to include the auditor's report in the annual report no later than April 30 of each year; and
- a communication on matters related to the audit performed, including significant matters identified by the external auditor, such as risks of material misstatement, results of control testing, quality of the information received, significant deficiencies, nature and amount of adjustments, etc., as well as general audit information, such as the names of the external auditor and the specialists involved, level of materiality, quality of the information received, among other matters, to be delivered before the audit report is issued.

To learn more about the CUAE visit [www.pwc.com/mx/circularunica](http://www.pwc.com/mx/circularunica)



# Looking to the future

Innovation is about more than just technology. It's about building and strengthening trust and delivering quality. It is rooted in people who are skilled and empowered. With these powerful forces, we are driving human and machine collaboration and reshaping the audit for the future.

As part of The New Equation global strategy, the PwC Global network is investing \$1 billion in a multi-year program, to deliver a totally new audit ecosystem for the next generation audit. By exploring and investing in new technologies and revisiting underlying audit methodology and processes, we will further standardize, simplify, centralize, and automate our audit work.

The program is underpinned by a human-centered design approach. Individuals across the PwC Network are focused on developing the next wave of innovation. This team leverages internal and external learnings from our community of solvers — audit practitioners and engagement teams — to focus on the needs of our stakeholders and identify new ways for our people to work with one another and with clients to enhance quality.

We are looking at new ways of securely ingesting and using data to identify risks, detect anomalies, and surface insights, with built in checks that enhance audit quality — increasing the application of artificial intelligence to the audit. Intuitive, guided experiences and workflows will help our people and clients complete the right tasks at the right time, adapting and scaling in response to the needs and complexities of each engagement.

A new cloud-based platform will form a virtual meeting place where our people can come together to collaborate and work, and where we can meet our clients to share information, updates, and insights. It will redefine how we digitally enable the ways we work and elevate the experience for our people and our clients in the process. By working with external technology providers, we are combining industry-leading technologies and design systems with our audit know-how.

The investment will accelerate the pace of innovation and enable us to be responsive to the needs of stakeholders, provide a transformed audit experience with technology that is exciting to use, and focus relentlessly on maintaining audit quality and reducing the burden on clients and teams by streamlining data acquisition, standardizing processes, and focusing our work on areas of higher risk.







# Our approach to quality management

## Global Network

“PwC” is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the “PwC Network.” “PwC” is often used to refer either to individual firms within the PwC network or to several or all of them collectively. In many parts of the world, accounting firms are required by law to be locally owned and independent. The PwC Network is not a global partnership, a single firm, or a multinational corporation. The PwC Network consists of firms which are separate legal entities.

### **PricewaterhouseCoopers International Limited**

Firms in the PwC network are members in, or have other connections to PwCIL, an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC Network. Focusing on key areas such as strategy, brand, and risk and quality, PwCIL coordinates the development and implementation of policies and initiatives to achieve a common and coordinated approach amongst individual member firms where appropriate. Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC Network as put forward by PwCIL.

The PwC Network is not one international partnership. A member firm cannot act as an agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions. PwCIL has no right or ability to control member firms’ exercise of professional judgment.

The governance bodies of PwCIL are:

- The Global Board, which is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of Network standards. The Board does not have an external role. The Board is composed of 20 members. Two are appointed as external, independent directors, and the other 18 Board members are elected by partners from all PwC firms around the world every four years.
- The Network Leadership Team, which is responsible for setting the overall strategy for the PwC Network and the standards to which the PwC firms agree to adhere.
- The Strategy Council, which is made up of the leaders of the largest PwC firms and regions of the Network, agrees on the strategic direction of the Network, and facilitates alignment for the execution of strategy.
- The Global Leadership Team, which is appointed by and reports to the Network Leadership Team and the Chairman of the PwC Network. Its members are responsible for leading teams drawn from member firms to coordinate activities across all areas of our business.

## Quality across the PwC Network

Quality audits across the PwC Network are vital to the firm's brand. The PwC Network has established clear objectives around audit quality focused on having the right people, supported by effective methodologies, processes, and technology, appropriately directed and supervised. To further promote audit quality across the Network, and help member firms achieve these objectives, there are a number of dedicated functions at the Network level that develop practical tools, guidance, and systems to support and monitor audit quality across the PwC Network. These resources are available to support a member firm's system of quality management under the Quality Management for Service Excellence (QMSE) framework, which integrates quality management into business processes and the firm-wide risk management processes. This QMSE framework introduces an overall quality objective for the audit practice that is focused on having the right people and processes and is supported by a series of underlying quality management objectives.

Each PwC Network member firm designs, implements, and operates its own system of quality management to achieve the overall quality objective and the underlying quality management objectives.

In addition, each PwC Network member firm is responsible for monitoring its own system of quality management, including an ongoing assessment aimed at evaluating whether the policies and procedures that constitute the member firm's system of quality management are designed appropriately and operate effectively to provide reasonable assurance that the overall quality objective for assurance services is achieved.



At the Network level, the PwC Network coordinates an inspection program to review the design and operating effectiveness of member firms' systems of quality management. Each PwC Network member firm also undergoes risk-focused reviews of completed engagements covering, on a periodic basis, individuals in the member firm who are authorized to sign audit or non-audit assurance or related services reports. The review assesses whether an engagement was performed in compliance with applicable professional standards and engagement-related policies and procedures. These reviews are planned and executed, and findings are assessed, using guidance and a range of checklists and tools developed at the Network level. The results of these reviews are reported to member firm leadership, who are responsible for analyzing the results of the inspections along with the findings identified from all sources of information and implementing remedial actions as necessary. PwC Mexico partners are informed about the Network inspection program comments in other PwC member firms, which enables our partners to consider these findings, when applicable, in planning and performing their audit work.

Since the start of the Russian government's invasion of Ukraine, the PwC Network's focus has been on the safety and well-being of our colleagues in Ukraine and on supporting the humanitarian efforts to aid the people of Ukraine. The PwC Network's response to the war in Ukraine resulted in several actions, including the decision that, under the circumstances, the PwC Network should not have member firms in Russia and Belarus; consequently, PwC Russia was separated on July 4, 2022, and PwC Belarus exited the Network in August 2022.

In addition, the PwC Network is exiting work for entities or individuals subject to sanctions imposed by any country in the world relating to Russia or Belarus. The PwC Network will also not undertake any work for the Russian federal government or state-owned enterprises. In addition, the PwC Network has implemented processes to address and monitor the professional service-related and similar sanctions issued by various jurisdictions.

As part of our firm's system of quality management, we are assessing the potential risks to quality related to our Network's response to the conflict, including the separation of PwC Russia and PwC Belarus, and approach to sanctions, as well as the broader risks that impact our clients. Our firm is monitoring the actions we have taken and will take to address the identified risks to assess whether further changes are needed to our firm's system of quality management or how we perform our engagements and interact with our clients.



# Our system of quality management

The CUAE includes the minimum quality control standards to be observed by audit firms for the provision of audit services related to the clients supervised by the CNBV. The CUAE requires compliance with the International and Mexican Standards on Quality Control as well as pre-existing regulations to financial sector entities. To monitor compliance and effectiveness of the established programs, the CNBV carries out reviews of selected audit firms and certain engagements audited by those firms.

Our system of quality management is designed to meet the requirements of relevant quality control standards and the PwC Network's QMSE framework. The International Auditing and Assurance Standards Board has issued International Standard on Quality Management 1 (ISQM1), which will replace their current standard effective December 15, 2022. The evolution of our system of quality management aligns to the enhancements prescribed by ISQM1, and we do not anticipate challenges to timely implementation of the new standard. The CUAE contemplates that any changes or replacements to the International and/or Mexican Standards on Quality Control will be adopted into the CUAE once they become effective.

Leveraging technology and data, we take a proactive, risk-based approach in designing and operating our system of quality management to achieve our quality objectives. Our system operates in a continual and iterative manner and is designed to be responsive and resilient to changes in the nature and circumstances of the firm and developments in the auditing environment and the regulatory landscape. We also continue to invest in and reimagine our system of quality management to capitalize on the rapid technological change and changing business environment, including harnessing data and using technology to monitor audit quality on a real-time basis.

Our system of quality control identifies risks and includes controls in the following areas:

- Organizational structure, including tone at the top and leadership's responsibility related to quality
- Practice environment, including assessment of internal and external risks
- Acceptance and continuance of clients and engagements
- Independence, integrity, and objectivity
- Personnel management, including training, assignment, and evaluation
- Engagement partner and QRP assignments
- Engagement performance, including technology used in our audits and review and supervision
- Participation by Network firms
- Monitoring, including internal inspections and root cause analyses of findings
- Administration, including design and maintenance of quality management policies and procedures



Annually, the design and operating effectiveness of our system of quality management over our audit practice is evaluated by the Quality Management Network and reviewed by professionals from the PwC Network. The most recent annual evaluation confirmed that our system of quality management over our audit practice is designed appropriately and operating effectively to provide reasonable assurance that the quality objectives prescribed by the relevant quality control standards and the PwC global QMSE framework have been achieved.





# Monitoring

## Pre-issuance reviews

One way we monitor quality is to review audit work on certain audit engagements prior to the issuance of their respective audit report. Our pre-issuance reviews, which include the AQRs performed by the Chief Auditor Network and the Continuous Quality Assurance program (CQA) monitored by the Quality Management Network, provide audit teams with timely feedback, which can be incorporated into their audit prior to the completion of fieldwork and the results are considered as part of our continuous improvement process.

In FY22, our Quality Management Network, the methodology group within the National Office, and the Chief Auditor Network combined performed **48 pre-issuance reviews**<sup>16</sup> (more than 45 performed in FY21).



Internal inspections

Our internal inspections program assesses audit engagements’ compliance with firm policies, procedures, and applicable professional and regulatory standards. The selected engagements are inspected subsequent to the issuance of their respective audit report.

Number of audit engagements subject to internal inspection:

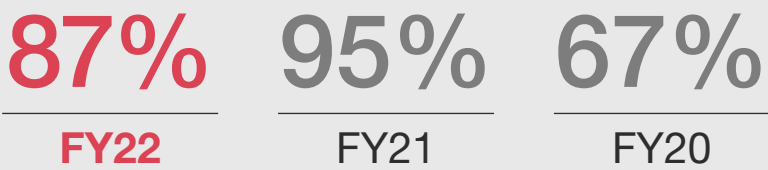


Under the firm’s internal inspections program, audit engagement partners are generally selected for inspection at least once every five years. Overall, the engagement selection process results in a sample of audit engagements that is representative of our audit practice (e.g., sector, geography, size) and meets or exceeds the requirements set forth in the applicable quality control professional standards.

The US Quality Review & Monitoring Group oversees the internal inspections program, including its design and execution. The group monitors audit quality, drives consistency in our inspections process, and delivers insights into areas for continued focus. This group, along with support from US and other network audit professionals and specialists (if applicable) with relevant industry or technical experience, executes the annual inspections. **More than 50** partners and professional staff participated as reviewers in 2022 internal inspections of 2021 audit engagements.

The US Quality Review & Monitoring Group prepares a report, which is reviewed by our AQC, to communicate inspections observations and results to the audit practice. Further, the Quality Management Network works with other groups in the National Office, the Learning and Development Team, and firm leadership to identify actions we could take to continue to enhance quality. For example, additional guidance or training, audit methodology modifications, and targeted messaging from leadership are ways we can sustain and enhance audit quality.

Compliance rate of audit engagements selected for internal inspection:



From these internal inspections, our Quality Management Network reviews observations raised, performs a root cause analysis, and puts forward action items in an effort for continuous enhancement.

## **External inspections**

The CUAE requires audit firms to have in place a quality evaluation program aligned with the International and Mexican Quality Control Standards and as mentioned before, the CNBV has the authority to perform reviews or inspections.

Our CNBV and PCAOB reviews/inspections of our public issuers and financial sector entities provide a data point for audit quality and represent an important check on our internal monitoring and assessment processes.

The PCAOB performs inspections at least once every three years. The most recent inspection report on our audit practice is dated February 28, 2022 (our “2020 Inspection Report”), and describes the results of the PCAOB’s 2020 inspection of three (or approximately 4%) of our 2019 year-end SEC issuer audits.

As the PCAOB has stated publicly, the audits they select and the portions of those audits they review are not done to identify a representative sample statistic that can be extrapolated accurately to a portfolio of audits. As a result, the findings cannot be used to draw conclusions about the frequency of deficiencies throughout the portfolio. The PCAOB’s approach is designed to be weighted towards targeting items of interest to their regulatory purposes. There are inherent differences in the purpose and methods used by the PCAOB to select audits for inspection compared to that used for our internal inspections.

## **Part I of the PCAOB Report**

Part I, which is the public portion of the PCAOB inspection report, contains an overview of the inspection procedures and observations on the engagements inspected. Sub-Part I.A includes discussion of deficiencies identified by the PCAOB in its inspection of issuer audits. Based upon the most current information related to the PCAOB's 2020 inspection of our 2019 year-end SEC issuer audits, we experienced an improvement in the results showing a positive impact of the investments we have made in audit quality.

We continue to focus on:

- auditing internal control over financial reporting, including identifying and testing controls related to significant estimates; and
- the sufficiency of substantive procedures to test the estimates.

Sub-Part I.B of the PCAOB inspection report includes information on deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), but nevertheless address other deficiencies related to compliance with PCAOB standards or rules. No deficiencies were identified in Sub-Part I.B of our 2020 Inspection Report.





## Part II of the PCAOB Report

Part II of the inspection report reflects observations identified during the PCAOB's review of certain practices, policies, and processes related to our system of quality control, including observations developed from the engagement-specific findings reported in Part I. The Sarbanes-Oxley Act mandates that Part II not be made public if a firm addresses the quality control observations to the PCAOB's satisfaction within 12 months of the date of the inspection report. The 12-month period for us to address the comments made in Part II of our 2020 Inspection Report expires on February 28, 2023.

## Analyses of quality drivers

We perform analyses of audits with and without deficiencies identified through internal and external inspections. A team of reviewers that is independent from the engagement team identifies and considers factors relevant to technical knowledge, supervision and review, professional skepticism, engagement resources, and training, among others that may have contributed to audit quality. These potential causal factors are identified by evaluating data for the engagement and certain members of the engagement team, performing interviews, and reviewing audit working papers.

In addition, we compare and contrast the data for audits with and without deficiencies to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same geography as the client, the number of years that key engagement team members have been on the engagement, the number of other audits the engagement partners are involved in, whether the engagement was subject to a pre-issuance review, and the timing of when the audit work was planned and performed. Our goal is to understand how audits without deficiencies may differ from those with deficiencies.

The potential causes we identify through our analyses are used to identify enhancements that may be useful to implement across all or certain elements of our practice and further improve our system of quality management.

# Continuous learning and improvement process

Our continuous learning and improvement process is an ongoing process designed to identify opportunities for enhancement in a timely manner through various channels, including monitoring the results of consultations with our National Office, pre-issuance reviews, and internal and external inspections, as well as an analysis of quality drivers. As part of this process, we rapidly respond, developing and implementing actions to address the opportunities identified. The enhanced guidance and tools and the additional communications, training, targeted workshops, and reach-outs described throughout this report, as well as our efforts to reimagine the end-to-end audit process, reflect our commitment to advance audit quality — our number one priority.







## Governance structure

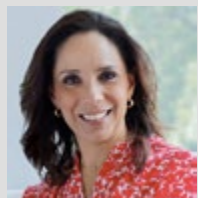
### Governance structure of the firm

The firm's Senior Partner manages the firm. The Senior Partner has appointed a Leadership Team to assist with managing the firm and discharging the responsibilities of the Country Senior Partner, which include establishing and determining the effectiveness of the firm's system of internal control, including controls relating to the quality of the firm's audit services.





## Leadership Team members as of July 1, 2022—PwC Mexico



**Ana Paula Jiménez\*\***  
Senior Partner



**Ricardo Moreno**  
Trust Solutions Leader



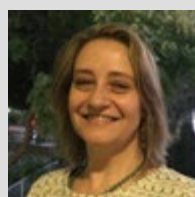
**Eduardo Reyes**  
Consulting Solutions Leader



**Mariana López Rodríguez**  
Marketing & Sales Leader



**Gabriel Hernández**  
General Counsel



**Olivia Méndez**  
Deputy Independence Leader



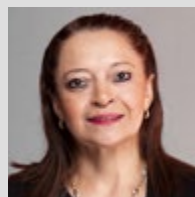
**Víctor Hugo Gallegos**  
Risk and Quality Leader



**Elidé Athié**  
Deputy Ethics  
& Compliance Leader



**Michelle Orozco**  
National Office Leader



**Martha Elena González**  
Human Capital Leader  
& Partner Affairs



**Lázaro Peña**  
Purpose & Inclusion Leader

*\*\*Also a member of the PwC Network's Strategy Council.*

We recognize that quality is an ongoing journey and there are always opportunities to do more. We'll continue to listen to our stakeholders' views about what they need and share our perspectives. As the world around us continues to change, we will continue our focus on audit quality.

# Endnotes

1. Our fiscal year ends June 30th.
2. References to the firm, our, we, and PwC in this document relate to PricewaterhouseCoopers, S.C. or PwC Mexico. The scope of this document pertains solely to the PwC Mexico firm registered with the PCAOB and supervised by the CNBV. This report was prepared to provide our stakeholders with relevant information related to our Mexican operations.
3. “SEC-issuer” audit clients refers to Foreign Private Issuers, significant audit components, and other referred work related to public entities listed in the US.
4. “Significant audit component” refers to an audit component of a FPI listed in the US that is of individual financial significance to the group, that, due to its specific nature or circumstances, is likely to cause significant risk(s) of material misstatement to the group financial statements.
5. “Audit professionals” refers to our core audit partners and staff. Specialists are excluded.
6. The FY21 and FY20 figures have been updated to more accurately reflect the number of audit professionals.
7. “Managers” includes managers, senior managers, directors, and managing directors.
8. The FY21 and FY20 figures have been updated to reflect only the years of experience of audit partners.
9. The FY21 and FY20 figures have been updated to reflect only the turnover rate of audit professionals.
10. “Associates” include audit professionals who are still attending university on their undergraduate programs and work on a shorter schedule. The percent of associates and total in FY21 and FY20 have been updated to reflect this definition.
11. In this context “active” is defined as a user that has logged at least once into Digital Lab.
12. “Audit team members” for purposes of the leverage ratio only include core audit partners and staff, specialists are excluded.
13. The FY21 and FY20 figures have been updated to more accurately reflect the leverage ratio excluding the specialists.
14. Technical support roles exclude quality management professionals (see page 36) and dedicated independence professionals (see page 10).
15. “Public Interest Entity” refers to issuers and financial sector entities supervised by the CNBV.
16. Engagements selected to participate in the pre-issuance reviews are based on engagement risk profiles, timing of last review for the partner, and selection unpredictability, among other criteria. The list of engagements selected for review is approved by the AQC.