
)	
ORDER INSTITUTING DISCIPLINARY)	
PROCEEDINGS, MAKING FINDINGS,)	
AND IMPOSING SANCTIONS)	PCAOB Release No. 105-2019-017
)	
<i>In the Matter of PricewaterhouseCoopers,</i>)	August 1, 2019
<i>S.C.,</i>)	
)	
Respondent.)	
)	

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring PricewaterhouseCoopers, S.C. (the "Firm," or "Respondent"), imposing a civil money penalty of \$100,000 on the Firm, and requiring the Firm to undertake certain remedial measures, including measures to establish, implement, and monitor policies and procedures to provide reasonable assurance of compliance with auditor independence requirements and with audit committee communication requirements. The Board is imposing these sanctions on the basis of its findings that the Firm violated PCAOB rules and standards related to the Firm's independence, audit committee communications, and system of quality control.

I.

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

II.

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

ORDER

Proceedings, Making Findings, and Imposing Sanctions (the "Order") as set forth below.¹

III.

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

A. Respondent

1. PricewaterhouseCoopers, S.C. is a civil partnership organized under the laws of Mexico and headquartered in Mexico City, Mexico. The Firm is a member firm in the PricewaterhouseCoopers International Limited network ("PwC International"). It currently serves as the auditor for approximately two issuer audit clients, and plays a role in approximately 54 other issuer audits, performing audit work that other PCAOB-registered firms, including member firms of PwC International, use or rely on in issuing audit reports for their issuer clients. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

B. Other Relevant Entity

2. "Client Bank" is a variable capital corporation incorporated in accordance with the laws of Mexico, and is headquartered in Mexico City, Mexico. According to Client Bank's filings with the U.S. Securities and Exchange Commission (the "Commission"), the bank is one of the largest financial services holding companies in Mexico based on total loans, among other things. At all relevant times, Client Bank's American Depository Shares were listed on the New York Stock Exchange, and Client Bank was an issuer, as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

3. This matter concerns the Firm's violations of PCAOB Rule 3520, *Auditor Independence*, which requires a registered public accounting firm to be independent of the firm's issuer audit clients throughout the audit and professional engagement period. Under PCAOB Rule 3520, a firm's independence requirements include an obligation to satisfy the independence criteria set out in Commission rules and regulations. During the audit and professional engagement periods for the Firm's audits of the 2016 and 2017 financial statements of Client Bank, covered persons in the Firm had personal financial relationships with Client Bank that were inconsistent with the independence criteria set out in Commission regulations. Accordingly, the Firm violated PCAOB Rule 3520.

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

ORDER

4. This matter also concerns the Firm's failure to comply with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*. Among other things, PCAOB Rule 3526 requires that, before accepting an initial engagement, and at least annually for each audit client, a registered firm describe in writing to the audit committee of the audit client certain relationships that may reasonably be thought to bear on independence. The Firm failed to timely make such required written communications with respect to the above-mentioned financial relationships that Firm covered persons had with Client Bank.

5. Finally, the Firm failed to comply with PCAOB rules and quality control standards requiring that a registered public accounting firm: (1) establish policies and procedures for its accounting and auditing practice that, among other things, provide the firm with reasonable assurance that its personnel maintain independence in all required circumstances and perform engagement work in accordance with applicable regulatory requirements; and (2) adequately monitor the design and application of such policies and procedures. Because of these failures, certain aspects of the Firm's system of quality control did not conform to PCAOB standards, and failed to provide the Firm with reasonable assurance that its personnel would comply with the rules governing independence and communications with audit committees.

D. The Firm Violated Rules Related to Independence*Rules Related to Independence*

6. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.² PCAOB rules and standards also require a registered public accounting firm and its associated persons to be independent of the firm's audit clients throughout the audit and professional engagement period.³

² PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and PCAOB Rule 3200, *Auditing Standards* (formerly PCAOB Rule 3200T, *Interim Auditing Standards*).

³ PCAOB Rule 3520, *Auditor Independence*; AS 1005, *Independence* (formerly AU § 220). As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017), <https://pcaobus.org/Standards/Auditing/Documents/PrintableReferenceTable.pdf>.

ORDER

7. A registered public accounting firm's or associated person's independence obligation with respect to an issuer audit client encompasses not only an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.⁴

8. Rule 2-01 of Commission Regulation S-X ("Rule 2-01") states that an accountant is not independent of an audit client if, at any point during the audit and professional engagement period, the accounting firm, any covered person in the firm, or any of his or her immediate family members has certain personal financial relationships with an audit client.⁵ Prohibited personal financial relationships include, among other things, certain loans to or from the audit client, and any brokerage account with the client where the value of the assets in the account exceeds the amount that is protected by the Securities Investor Protection Corporation or is insured by its non-US equivalent.⁶ A "covered person" includes any partner from an office of the accounting firm in which the lead audit engagement partner primarily practices in connection with the audit.⁷

Covered Persons Had Personal Financial Relationships with Client Bank

9. On June 13, 2016, the Firm signed an engagement letter ("Engagement Letter") accepting an initial engagement with Client Bank to be its external auditor for fiscal year 2016.⁸ At that time, and unbeknownst to the Firm, at least six of its partners had personal financial relationships with Client Bank that Rule 2-01 identifies as inconsistent with a firm's obligation to maintain independence from its audit client. These six partners were located in the Firm office where the lead audit engagement partner for the Client Bank engagement primarily practiced, so they were "covered persons" under Rule 2-01.⁹ Three of the six partners were in prohibited debtor-creditor relationships with Client Bank because they each had obtained a margin loan or

⁴ PCAOB Rule 3520, Note 1.

⁵ See, e.g., 17 C.F.R. § 210.2-01(c)(1)(ii).

⁶ 17 C.F.R. §§ 210.2-01(c)(1)(ii)(A) & (C).

⁷ 17 C.F.R. § 210.2-01(f)(11)(iv).

⁸ On July 20, 2017 and June 18, 2018, the Firm signed engagement letters extending the engagement through fiscal years 2017 and 2018, respectively.

⁹ According to the Firm's records, none of the six partners have worked on the Client Bank engagement.

ORDER

mortgage for a second residence from the client (the "Debtor-Creditor Relationships").¹⁰ The other three partners held uninsured assets in brokerage accounts with Client Bank or an affiliate (the "Uninsured Brokerage Interests").¹¹

10. Although the Debtor-Creditor Relationships were discovered by the Firm shortly after the Engagement Letter and then unwound by September 2016, the Uninsured Brokerage Interests were not identified by the Firm and were not unwound until approximately June 2018, two years after the Engagement Letter. During those two years, the Firm issued audit reports on Client Bank's 2016 and 2017 financial statements included in the Forms 20-F filed with the Commission in April 2017 and March 2018, respectively. In both audit reports, Respondent affirmed that it was independent of Client Bank.

11. As a result of the conduct described above, the Firm violated PCAOB rules by failing to satisfy applicable independence criteria set out in Commission regulations with respect to the audit and professional engagement periods for the Firm's audits of the 2016 and 2017 financial statements of Client Bank.¹²

E. The Firm Violated PCAOB Rules Related to Certain Required Communications With the Audit Committee of Client Bank Concerning Independence

PCAOB Rule Related to Communications with Audit Committee Concerning Independence

12. PCAOB rules require auditors to provide to an issuer client's audit committee or equivalent certain independence communications.¹³ PCAOB Rule 3526 requires, among other things, that prior to accepting an initial engagement, and at least annually for each audit client, a firm describe in writing to the audit client's audit committee all relationships between the firm and the client that, as of the date of the communication, may reasonably be thought to bear on independence.

Failure to Provide Rule 3526 Letter Prior to Accepting Initial Engagement

13. When the Firm accepted the initial engagement to be Client Bank's external auditor, the Firm failed to disclose the Debtor-Creditor Relationships and

¹⁰ See 17 C.F.R. § 210.2-01(c)(1)(ii)(A).

¹¹ See 17 C.F.R. § 210.2-01(c)(1)(ii)(C).

¹² See PCAOB Rule 3520; AS 1005; 17 C.F.R. § 210.2-01(c)(1).

¹³ PCAOB Rule 3526.

ORDER

Uninsured Brokerage Interests to the client's audit committee, as required by Rule 3526. Neither the Firm's June 13, 2016 Engagement Letter, nor any previous document from the Firm, disclosed the prohibited financial relationships between the Firm's covered persons and Client Bank. The Firm was unaware of such financial relationships at the time because its system of quality control relating to independence failed to detect them.

Failure to Provide Sufficient Annual Rule 3526 Letters for the 2016 and 2017 Audit and Professional Engagement Periods

14. For nearly two years after issuing the June 13, 2016 Engagement Letter, the Firm failed to provide Client Bank's audit committee with any written description of the relationships between the Firm's covered persons and Client Bank that might reasonably have been thought to bear on the Firm's independence. Indeed, the Firm did not provide Client Bank's audit committee with a written description of the Debtor-Creditor Relationships until May 2018.

15. As mentioned above, during that two-year delay, the Firm issued two audit reports affirming that it was independent of Client Bank. The Firm also issued a Rule 3526 letter to Client Bank's audit committee during that two-year period. But that letter, dated June 16, 2017, failed to identify either the Debtor-Creditor Relationships or the Uninsured Brokerage Interests. Instead, the letter represented that the Firm was not aware of any relationship between the Firm and Client Bank that had continued or arisen since June 13, 2016 and that may reasonably be thought to bear on the Firm's independence. The Firm should have known that this Rule 3526 letter was inaccurate, though, because the Firm had discovered the Debtor-Creditor Relationships *after* June 13, 2016, and knew that those personal financial relationships ran afoul of applicable independence criteria, and thus may reasonably be thought to bear on independence. As for the Uninsured Brokerage Interests, the Firm failed to provide Client Bank's audit committee with any written description of those relationships until January 2019.

16. As a result of the conduct described above, the Firm violated PCAOB Rule 3526 by failing to timely make required written communications to Client Bank's audit committee with respect to the Debtor-Creditor Relationships and the Uninsured Brokerage Interests.

F. The Firm Failed to Comply With PCAOB Quality Control Standards

17. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards,¹⁴ which provide that registered firms "shall have a

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

ORDER

system of quality control for its accounting and auditing practice."¹⁵ PCAOB quality control standards further state that policies and procedures should be established to provide the firm with reasonable assurance that "personnel maintain independence (in fact and appearance) in all required circumstances" and "that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."¹⁶ Additionally, PCAOB quality control standards provide that policies and procedures for monitoring "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control . . . are suitably designed and are being effectively applied," and that its system of quality control is effective.¹⁷

18. During the audit and professional engagement periods for the 2016 and 2017 audits of Client Bank, the Firm failed to suitably design, effectively apply, and appropriately monitor quality control policies and procedures to provide reasonable assurance (a) that its personnel maintained independence in all required circumstances, and (b) that its engagement personnel met applicable regulatory requirements, including the requirements of PCAOB Rule 3526. Those failures resulted in, or contributed to, the independence and Rule 3526 violations described above.

19. As a result, the Firm violated PCAOB quality control standards during the audit and professional engagement periods for the 2016 and 2017 Client Bank audits.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in the Respondent's Offer. In determining to accept Respondent's Offer, the Board considered, among other things, the firm's willingness to settle this matter at an early stage of the investigation and remedial actions undertaken by the Firm prior to the issuance of this Order. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), PricewaterhouseCoopers, S.C. is hereby censured;

¹⁵ Interim Quality Control Standard ("QC") § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

¹⁶ QC §§ 20.09 and 20.17.

¹⁷ QC § 20.20; see also QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

ORDER

- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$100,000 is imposed upon PricewaterhouseCoopers, S.C. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. PricewaterhouseCoopers, S.C. shall pay this civil money penalty within 10 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies PricewaterhouseCoopers, S.C. as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006; and
- C. Pursuant to Sections 105(c)(4)(F) and (G) of the Act and PCAOB Rules 5300(a)(6) and (9), PricewaterhouseCoopers, S.C. is required:
1. within ninety (90) days from the date of this Order, to establish or revise, as necessary, policies and procedures, including monitoring procedures, for the purpose of providing the Firm with reasonable assurance of compliance with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, and auditor independence requirements applicable to audits and reviews conducted pursuant to PCAOB standards;
 2. within ninety (90) days from the date of this Order, to establish or revise, as necessary, policies to ensure training of Firm personnel concerning PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, and auditor independence requirements applicable to audits and reviews conducted pursuant to PCAOB standards; and
 3. within one hundred twenty (120) days from the date of this Order, to certify in writing to the Director of the Division of Enforcement and Investigations, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, the Firm's compliance with paragraphs C(1) through C(2) above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written

ORDER

evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Firm shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

August 1, 2019