
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS
AND IMPOSING SANCTIONS

*In the Matter of Arturo Vargas Arellano,
CPC,*

Respondent.

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) PCAOB Release No. 105-2016-045
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) December 5, 2016
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is (1) censuring Arturo Vargas Arellano, CPC ("Vargas" or "Respondent"); (2) barring him from being an associated person of a registered public accounting firm;¹ and (3) imposing on him a civil money penalty in the amount of \$50,000. The Board is imposing these sanctions on the basis of its findings that Vargas: (1) violated PCAOB rules and standards in connection with an audit of the financial statements of an issuer audit client; and (2) failed to cooperate with a Board inspection and Board investigation by providing improperly altered documents and misleading information to the Board's inspections and enforcement staff.

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) and (3) against Respondent.

¹ Respondent may file a petition for Board consent to associate with a registered public accounting firm after five (5) years from the date of this Order.

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II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.²

III.

On the basis of Respondent's Offer, the Board finds that:³

A. Respondent

1. Arturo Vargas Arellano, age 61, of Mexico City, Mexico, is a registered public accountant who is licensed under the laws of Mexico (license no. 7455). At all relevant times, Vargas was a partner in the Mexico City, Mexico office of Galaz, Yamazaki, Ruiz Urquiza, S.C. ("Deloitte Mexico" or "Firm") and an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). The Firm is a member of the Deloitte Touche Tohmatsu Limited global network ("Deloitte Global"). Vargas served as the engagement partner for the audits of Southern Copper Corporation ("SCC" or "Company") for the years ending December 31, 2009 through December 31, 2012. In the second quarter of 2013, Deloitte Mexico removed Vargas from the SCC audit engagement team, and Vargas

² The findings herein are made pursuant to the Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

³ The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.



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retired from Deloitte Mexico on May 31, 2016, after the discovery of his improper alteration of 2010 SCC audit work papers.

B. Issuer

2. SCC is a Delaware corporation headquartered in Phoenix, Arizona. SCC's public filings disclose that SCC is a large integrated copper producer with mining, smelting and refining facilities located in Peru and Mexico. Its common stock is listed on both the New York and Lima Stock Exchanges under the symbol "SCCO." At all relevant times, SCC 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 Respondent's violations of PCAOB rules and standards during the course of the Firm's audits of the Company's December 31, 2010 financial statements and the Company's internal control over financial reporting ("ICFR") as of December 31, 2010 (the "Audit"), as well as his misconduct in connection with a subsequent PCAOB inspection and investigation. During the Audit, Respondent failed to exercise due professional care and professional skepticism and failed to: (1) gather sufficient competent evidential matter to support the appropriateness of the Company's tax treatment of unremitted earnings of a foreign subsidiary; (2) perform sufficient procedures to test journal entries for the existence of fraud; (3) sufficiently evaluate the qualifications, work, relationship to the audit client, and findings of the Company's employed and engaged specialists used for mineral reserves, labor obligations and employee benefits, and fixed asset lives; (4) sufficiently evaluate significant accounting estimates, including estimates related to mineral reserves and useful lives of fixed assets; and (5) timely assemble for retention all audit documentation required by PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS3").⁴

4. After the documentation completion date for the Audit, Respondent and certain other members of the engagement team improperly altered the documentation for the Audit.⁵ Specifically, in advance of a post-audit practice review, performed by the Firm, Respondent and certain other members of the engagement team violated AS3 by deleting work papers from and making other alterations to documentation that had

⁴ All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant conduct.

⁵ See Miguel Angel Asencio Asencio, PCAOB Rel. No. 105-2016-046 (Dec. 5, 2016); Aldo Hidalgo de la Rosa, PCAOB Rel. No. 105-2016-047 (Dec. 5, 2016).



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previously been assembled for retention for the Audit. In addition, Respondent and certain other members of the engagement team made additions to the previously assembled documentation, without identifying when the additions were made, who made them, and why they were made, as required by AS3.

5. Beginning in March 2012, the staff of the Board's Division of Registration and Inspections ("Inspections") inspected the Audit. In connection with the inspection, Respondent and certain other members of the engagement team made available to the PCAOB inspectors the Audit work papers they had previously improperly altered, as well as other misleading information, in violation of PCAOB Rule 4006, *Duty to Cooperate with Inspectors*. Finally, when the Board's enforcement staff later investigated the Audit, Respondent made available to the PCAOB investigators the same improperly altered Audit work papers and other misleading information, thereby failing to cooperate with the Board's investigation.

D. Respondent Violated PCAOB Rules and Standards During the Course of the Audit

6. The Firm has been the external auditor for SCC since 2009. On February 25, 2011, the Firm issued unqualified opinions in the Audit reports that were included in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission") on February 28, 2011. The Audit reports stated that, in the Firm's opinion, the Company's financial statements presented fairly, in all material respects, the Company's financial position, and the results of its operations and cash flows in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), and that the Company maintained, in all material respects, effective ICFR as of December 31, 2010. The Audit reports also stated that the Audit was conducted in accordance with PCAOB standards. Respondent was the engagement partner for the Audit and had served as the engagement partner for the Company's audits since 2009. Respondent had overall responsibility for the Audit, including overall responsibility for supervising the members of the Audit engagement team.

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that registered public accounting firms and their associated persons comply with applicable auditing and related professional practice standards.⁶ Among other things, those standards require that an auditor express an opinion on an issuer's

⁶ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

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financial statements only when the auditor has performed the audit in compliance with PCAOB standards.⁷

8. PCAOB standards require that auditors exercise due professional care and professional skepticism, and plan and perform audit procedures to obtain sufficient competent evidential matter to provide a reasonable basis for the audit opinion.⁸ While that evidential matter can include management representations, such representations "are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit."⁹

9. PCAOB standards also provide that the "auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. To the extent the auditor remains in substantial doubt about any assertion of material significance, he or she must refrain from forming an opinion until he or she has obtained sufficient competent evidential matter to remove such substantial doubt, or the auditor must express a qualified opinion or a disclaimer of opinion."¹⁰

10. PCAOB standards provide that the auditor with final responsibility for the audit is responsible for adequately planning and properly supervising the work to be performed in the audit.¹¹ They also provide that "[t]he work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report."¹²

⁷ See AU § 508.07, *Reports on Audited Financial Statements*.

⁸ See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; AU § 326.01, *Evidential Matter*.

⁹ AU § 333.02, *Management Representations*.

¹⁰ AU § 326.25.

¹¹ AU § 310.01, *Appointment of the Independent Auditor*, AU §§ 311.01-.02, *Planning and Supervision*.

¹² AU § 311.13.

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11. PCAOB standards also provide that "[t]he auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole."¹³

Respondent Failed to Obtain Sufficient Competent Evidential Matter to Support the Appropriateness of the Company's Tax Treatment of Unremitted Earnings of a Foreign Subsidiary

12. SCC had a Mexican subsidiary that generated significant earnings in 2010. In 2010, and for at least the three years prior, this Mexican subsidiary paid significant dividends to SCC. SCC recorded a deferred tax liability in its 2010 consolidated financial statements for the tax consequences related to a portion of the Mexican subsidiary's earnings expected to be distributed to SCC in future years. Under U.S. GAAP there is a presumption "that all undistributed earnings of a subsidiary will be transferred to the parent entity."¹⁴ SCC could overcome the presumption "if sufficient evidence show[ed] that the subsidiary ha[d] invested or [would] invest the undistributed earnings indefinitely"¹⁵ In 2010, SCC did not record a deferred tax liability related to undistributed earnings from the Mexican subsidiary due to its assertion that those undistributed earnings were or would be indefinitely invested in the Mexican subsidiary.

13. During the Audit, Respondent and the engagement team determined that deferred taxes and income tax expense were significant risk areas and engaged U.S. tax specialists¹⁶ to examine U.S. tax issues related to amounts recorded in SCC's 2010 consolidated financial statements. Respondent requested the assistance of the U.S. tax specialists to review SCC's indefinite investment assertion during the Audit. SCC primarily supported its indefinite investment assertion with management representations regarding its intent to indefinitely invest the earnings and its plans for the use of some undistributed earnings within its Mexican subsidiary. Respondent conveyed the management representations and other evidence to the U.S. tax specialists.

¹³ AU § 342.04, *Auditing Accounting Estimates*.

¹⁴ Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, Subtopic, *Other Considerations or Special Areas*, Section 30, *Recognition*, paragraph 25-3.

¹⁵ ASC 740-30-25-17.

¹⁶ The U.S. tax specialists were employed by Deloitte & Touche Tax LLP.

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14. The U.S. tax specialists informed Respondent on February 1, 2011 that they could not conclude that the evidence the Company had provided at that time supported SCC's indefinite investment assertion. In fact, the U.S. tax specialists stated, among other things, that SCC's projected future earnings would be sufficient to cover expected future reinvestments and therefore that current accumulated Mexican earnings were not needed for reinvestment in the Mexican subsidiary. Thus, the U.S. tax specialists informed Respondent that they could not conclude as to the appropriateness of SCC's evidence concerning its determination not to record a deferred tax liability on those undistributed earnings. The U.S. tax specialists later drafted a memorandum ("2010 Tax Memorandum"), which stated their position that they could not conclude on the appropriateness of SCC's indefinite investment assertion because it was insufficiently supported.

15. After the U.S. tax specialists informed Respondent that they could not conclude that the evidence SCC had provided was sufficient to support the Company's indefinite investment assertion, neither Respondent nor anyone else on his engagement team performed any additional procedures or obtained any additional evidence regarding that assertion. Respondent also did not document that he believed the U.S. tax specialists were incorrect or unreasonable in determining that SCC's indefinite investment assertion was insufficiently supported. Given his failure to gather additional evidence, or direct others to gather additional evidence, after being informed by the U.S. tax specialists that they were unable to conclude as to the appropriateness of SCC's indefinite investment assertion, Respondent violated AU §§ 230,¹⁷ 333,¹⁸ and 326¹⁹ by failing to exercise due professional care and professional skepticism, placing undue reliance on management representations, and failing to gather sufficient competent evidential matter to support his audit opinion.

Respondent Failed to Perform Sufficient Procedures to Test Journal Entries for the Existence of Fraud

16. PCAOB standards provide that "[t]he auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial

¹⁷ AU § 230.02.

¹⁸ AU § 333.04.

¹⁹ AU § 326.01.

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statements are free of material misstatement, whether caused by error or fraud."²⁰ The auditor should identify and address the risks of material misstatement due to fraud, including the risk of management override of controls.²¹ Specifically, the auditor should examine journal entries and other adjustments for evidence of possible material misstatement due to fraud.²²

17. During the Audit, Respondent and the engagement team identified the recording of journal entries as a fraud risk factor related to potential management override of controls. Respondent and the engagement team planned to respond to this risk by, among other things, testing journal entries.

18. The engagement team planned to use a journal entry testing tool ("JET Tool") to select and analyze journal entries for testing in response to the requirements of AU § 316.²³ During the Audit, however, the engagement team was unable to run the JET Tool due to an inability to reconcile the extracted journal entry data to the Company's general ledger. Respondent and the engagement team did not adjust their audit approach in response. And although Respondent and the engagement team selected journal entries for testing in various parts of the Audit, those journal entries were neither selected for purposes of identifying, nor examined for evidence of, possible material misstatements due to fraud. Respondent accordingly violated AU § 316,²⁴ as well as AU §§ 230,²⁵ 311,²⁶ and 326,²⁷ by failing to exercise due professional care and professional skepticism, failing to obtain reasonable assurance that SCC's 2010 financial statements were free of material misstatement, whether caused by error or

²⁰ AU § 110.02, *Responsibilities and Functions of the Independent Auditor*, AU § 316.01, *Consideration of Fraud in a Financial Statement Audit*.

²¹ AU § 316.57.

²² AU §§ 316.58 and .61.

²³ AU §§ 316.58 and .61.

²⁴ AU §§ 316.58 and .61.

²⁵ AU § 230.02.

²⁶ AU § 311.11.

²⁷ AU § 326.01.

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fraud, and failing to adequately supervise the members of the engagement team responsible for testing journal entries for possible misstatements due to fraud.

Respondent Failed to Perform Necessary Procedures Regarding the Specialists Used on the Audit

19. During the course of the Audit, the Company used the services of three sets of specialists. One set of specialists was comprised of SCC employees who estimated the quantities of proven and probable mineral reserves.²⁸ The remaining two sets of specialists were engaged by the Company, one to determine labor obligations and employee benefits related to calculating the net pension assets, and one to determine the useful lives of certain equipment for purposes of calculating depreciation expense. In violation of PCAOB standards, Respondent and his engagement team used the work of those specialists in conducting the Audit without adequately reviewing their qualifications, the nature of the work they performed, their relationships with the Company, and other information necessary to determine whether to use their findings.

20. When using the work of a specialist on an audit, PCAOB standards provide that the auditor should evaluate the professional qualifications of the specialist in determining that the specialist possesses the necessary skill or knowledge in the particular field.²⁹ PCAOB standards also provide that the auditor should obtain an understanding of the nature of the work performed or to be performed by the specialist.³⁰

21. PCAOB standards further provide that the auditor should evaluate the relationship of the specialist to the client, including circumstances that might impair the specialist's objectivity. Such circumstances include situations in which the client has the ability through employment to directly or indirectly control or significantly influence the specialist.³¹

²⁸ SCC's mineral reserves were estimated quantities of proven and probable material that could be mined and processed for extraction of mineral content. The mineral reserves were used to determine the amortization of mine development and intangible assets, and depreciation of buildings and equipment.

²⁹ AU § 336.08, *Using the Work of a Specialist*.

³⁰ AU § 336.09 (footnote omitted).

³¹ AU § 336.10 (footnote omitted).

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22. When using the work of a specialist, the auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements.³²

23. Respondent and the engagement team documented that mineral reserves and depreciation and depletion expense were significant risk areas for the Audit. Labor obligations were a significant risk area as to a material subsidiary in the Audit. Thus, some or all of each set of specialists' work arose in an area of the Audit considered a significant risk.

24. For two sets of specialists -- labor obligations and employee benefits, and mineral reserves -- Respondent and the engagement team failed to perform procedures regarding the qualifications of the specialists, the nature of the work performed by the specialists, the specialists' relationships with the Company, and information necessary to determine whether to use the findings of the specialists. As a result, with respect to these two sets of specialists, Respondent failed to exercise due professional care and professional skepticism, failed to gather sufficient competent evidential matter, and violated AU § 336.08, .09, .10, and .12.

25. For the remaining set of specialists working on useful lives of certain equipment, during the Audit, Respondent and the engagement team failed to perform procedures regarding the qualifications of the specialists, the specialists' relationships with the Company, and information necessary to determine whether to use the findings of the specialists. As a result, with respect to this set of specialists, Respondent failed to exercise due professional care and professional skepticism, failed to gather sufficient competent evidential matter, and violated AU § 336.08, .10, and .12.

26. In addition, with respect to all three sets of specialists, because Respondent did not adequately review the qualifications of the specialists, the specialists' relationships with the Company, and information necessary to determine whether to use the findings of the specialists, he did not sufficiently evaluate the reasonableness of estimates for which the specialists were responsible, including estimates related to mineral reserves and useful lives of certain equipment. As a result, Respondent failed to exercise due professional care and professional skepticism, and failed to sufficiently evaluate the reasonableness of significant accounting estimates in violation of AU § 342.04.

³²

AU § 336.12.

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E. Respondent Violated PCAOB Rules and Standards After the Issuance of the Audit Reports

Respondent Violated the PCAOB Audit Documentation Standard in Connection with an Internal Inspection of the Audit

27. On April 11, 2011, the engagement team assembled for retention the complete and final set of documentation for the Audit (the "April Archive"). On or before July 20, 2011, Respondent was notified that the Audit had been selected for an internal practice review ("Practice Review"). The Practice Review, which was part of the Firm's system of quality control, was scheduled to take place in early August 2011. In connection with the Practice Review, Respondent violated PCAOB standards by improperly altering audit work papers.

28. PCAOB audit documentation standards require that the complete and final set of documentation for an audit be assembled for retention by the "documentation completion date," a date no later than 45 days from the date on which the auditor grants permission to use its report.³³ After the documentation completion date, audit documentation must not be deleted, modified, or discarded from the audit file, but it may be added as long as the auditor documents the date of the addition, the person who prepared the additional documentation, and the reason for adding the documentation.³⁴

29. When Respondent and the engagement team created the April Archive, the work papers did not include certain audit documentation required to support the Audit reports Respondent had authorized. For example, the April Archive did not contain an engagement completion document, work papers related to the tax treatment of unremitted earnings of a foreign subsidiary, and other work papers that were necessary to support the Audit reports but were not timely assembled for retention.

30. Upon learning of the impending Practice Review, in late July 2011, Respondent directed certain other members of the engagement team to review the April Archive. Through that process, Respondent and certain other members of the engagement team became aware that the April Archive did not contain numerous work papers that were necessary to support the Audit reports and, in fact, contained work papers that did not even relate to the Audit.

³³ See AS3 ¶ 15.

³⁴ See AS3 ¶ 16.

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31. In response, Respondent and certain other members of the engagement team reopened the April Archive in late July 2011 ("July Reopening"). The July Reopening of the April Archive was approved by Respondent and the Audit Engagement Quality Reviewer ("EQR"), in accordance with the Firm's internal policies. The form completed by the Respondent and other engagement team members stated that the July Reopening was necessary to make limited administrative corrections to a single work paper, and no other changes would be made to the April Archive. The EQR approved the July Reopening based on the information provided in this form. During the July Reopening, Respondent and certain other members of the engagement team violated AS3 by improperly deleting 21 work papers from the April Archive, improperly altering 36 existing work papers, and improperly adding 41 work papers.

32. Among the work papers added was a memorandum that Respondent directed other engagement team members to create in order to describe procedures purportedly performed during the Audit to address the journal entry testing requirements of PCAOB standards ("July JET Memorandum").³⁵ During the July Reopening, engagement team members created the July JET Memorandum, as Vargas directed, improperly backdated it to make it appear that it had been created during the Audit, backdated all electronic sign-offs, including Respondent's, and placed the memorandum in the Firm's documentation archiving system. During the July Reopening, Respondent and certain other members of the engagement team also added other significant work papers to the Audit documentation, including an engagement completion document, without indicating that those work papers were being added after the documentation completion date for the Audit. When Respondent and certain other members of the engagement team documented the reason for opening the Audit archive on July 29, 2011, they falsely stated the reason for reopening the archive, and failed to disclose the addition of necessary audit documentation, such as the July JET Memorandum and an engagement completion document.

33. During the July Reopening, Respondent and certain other members of the engagement team also backdated multiple review sign-offs on other work papers to make it appear that all of the reviews of work papers had taken place prior to the release date of the Audit reports. Once the Respondent and certain other members of the engagement team completed the improper alterations to the April Archive, they closed it, thus creating a new Audit archive ("July Archive").

34. The Practice Review team thereafter conducted its review of the Audit based on the July Archive, and not based on the audit work the team documented in the original April Archive. After reviewing the documentation contained in the July Archive,

³⁵ See AU § 316.01, .57-.61.

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the Practice Review team made multiple negative observations concerning the work documented. In response, Respondent arranged for the July Archive to be reopened in December 2011 for the stated reason of adding work papers that existed prior to the documentation completion date but were not previously included in the Audit archive ("December Reopening").

35. On or about November 22, 2011, Respondent and others on the engagement team prepared a memorandum ("November Memorandum"), for inclusion in the Audit archive, which stated that seven work papers were modified and 39 work papers were added to the July Archive during the December Reopening. The November Memorandum, however, contained multiple errors and did not satisfy the requirements of AS3. Contrary to the text of the November Memorandum, during the December Reopening, four work papers were modified and 43 work papers were added to the July Archive. Among the work papers added during the December Reopening were the 2010 Tax Memorandum and other tax-related work papers. Once Respondent and certain other members of the engagement team completed the alterations to the July Archive, they closed the Audit archive, thus creating a new Audit archive ("December Archive").

36. As a result of his improper alteration of audit documentation, including the improper alteration of the work paper that was identified as the justification for the July Reopening, Respondent violated AS3.³⁶

Respondent Failed to Cooperate with the Board's Inspection by Making Available to Inspections Improperly Altered Documents and Other Misleading Information

37. On February 6, 2012, the Board notified the Firm that Inspections would inspect the Audit ("Board's Inspection"). The Act "requires the Board to conduct a 'continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons . . . with [the Act], the rules of the Board, the rules of the Commission, or professional standards.'"³⁷

38. PCAOB rules require an associated person of a registered public accounting firm to "cooperate with the Board in the performance of any Board

³⁶ See AS3 ¶ 16.

³⁷ *Gately & Associates, LLC*, SEC Rel. No. 34-62656 at 2 (Aug. 5, 2010) (quoting Section 104(a) of the Act).

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inspection."³⁸ This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes."³⁹

Respondent Completed a Misleading Engagement Profile

39. Field work for the Board's Inspection took place during the weeks of March 26 and April 2, 2012. On or before February 23, 2012, Respondent was notified that the Audit would be inspected. Before field work began, Inspections asked the Firm to complete a document entitled Public Company Accounting Oversight Board 2011 Inspection Period International Engagement Profile ("Engagement Profile"). Respondent and certain other members of the engagement team drafted responses to relevant portions of the Engagement Profile, and Respondent reviewed and revised the document prior to its submission to Inspections. One of the sections in the Engagement Profile was entitled "Documentation completion date." In responding to this section, Respondent and certain other members of the engagement team made reference to the April Archive and the December Archive but failed to reveal the existence of the July Archive.

40. The next section in the Engagement Profile asked: "Have there been any changes made to the audit documentation subsequent to the documentation completion date [?] If yes, please explain the nature of the changes below, and provide a summary log of when the changes were made." In reply to this question, Respondent and certain other members of the engagement team checked the box signifying that changes had been made and attached the November Memorandum which described, in part, the alterations made during the December Reopening. Respondent did not, however, reveal any of the numerous alterations made to the April Archive during the July Reopening.

41. At no point in time did Respondent disclose to Inspections that Respondent and certain other members of the engagement team had, in fact, improperly created, added, backdated, modified, and deleted numerous work papers during the July Reopening, months after the documentation completion date, and

³⁸ PCAOB Rule 4006.

³⁹ *Nathan M. Suddeth, CPA, PCAOB Rel. No. 105-2013-007, ¶ 4 (Sept. 10, 2013).*

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shortly before the Practice Review. By providing misleading information to Inspections in the Engagement Profile, Respondent violated PCAOB Rule 4006.

Respondent Made Misleading Work Papers and Other Documents Available to Inspections

42. During field work for the Board's Inspection, the Firm made the work papers from the December Archive available to Inspections in electronic form. The December Archive included the documents improperly created, added, backdated, and modified from the April Archive, and excluded the documents improperly deleted from the April Archive. During the inspection process, Respondent had numerous conversations with PCAOB inspectors concerning the work he and others had performed during the Audit. At no time, however, did Respondent advise the PCAOB inspectors that any of these documents were improperly altered during the July Reopening even though he understood that Inspections was relying upon the December Archive to perform the inspection.

43. Respondent understood that Inspections could request and receive copies of individual work papers from the Audit. During inspection field work, PCAOB inspectors requested copies of certain work papers, including certain of the improperly created, backdated, and added documents. In response to such a request, on April 5, 2012, Respondent emailed a PCAOB inspector copies of the engagement completion document and the audit planning memorandum.

44. At no time did Respondent disclose to Inspections that the engagement completion document was improperly added and the audit planning memorandum was improperly modified during the July Reopening.

45. On June 6, 2012, Inspections issued a Comment Form to the Firm describing audit work related to journal entry testing and specifically referencing the improperly created and backdated July JET Memorandum. On June 18, 2012, Respondent signed off as agreeing with the factual recitation within the Comment Form, including the recitation of certain facts pulled directly from the improperly created and backdated July JET Memorandum.

46. At no time did Respondent disclose to Inspections that the July JET Memorandum was improperly created, backdated, and added to the April Archive during the July Reopening.

47. As a result of the conduct described above, Respondent failed to cooperate with the Board's Inspection, in violation of Rule 4006.

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Respondent Failed to Cooperate with the Board's Investigation

48. On January 22, 2015, the Board's Division of Enforcement and Investigations staff (the "Division") began conducting a formal investigation of the Audit. Section 105(b)(3) of the Act authorizes the Board to impose disciplinary sanctions if a registered public accounting firm or associated person refuses to testify, produce documents, or otherwise cooperate with a Board investigation. PCAOB rules include procedures for implementing that authority.⁴⁰ Noncooperation with a Board investigation includes (a) knowingly making false material declarations; (b) using documents while knowing that such documents contain false material declarations; (c) failing to comply with an accounting board demand; (d) abusing the Board's processes to obstruct an investigation; and (e) otherwise failing to cooperate in connection with an investigation.⁴¹

49. On February 4, 2015, the Division issued an Accounting Board Demand ("ABD") to the Firm requiring the Firm to produce, among other things, all work papers and other documents concerning the Audit ("February 4 ABD").

50. On September 25, 2015, the Division issued an ABD to Respondent ("September 25 ABD") requiring him to appear for testimony and produce, among other things, the same SCC work papers sought from the Firm in the February 4 ABD.

51. Respondent took part in the production of work papers by the Firm in response to the February 4 ABD and the September 25 ABD. Respondent and the Firm failed to produce the work papers from the April Archive, as required by those ABDs, and instead, as Respondent was aware, the Firm produced work papers that had been improperly altered during the July Reopening. Production of those improperly altered work papers constituted use of documents that Respondent knew to contain false material declarations.

52. Pursuant to the September 25 ABD, Respondent testified under oath on January 18 through 21, 2016. Despite being questioned in testimony regarding work papers that were improperly added to the April Archive, Respondent failed to disclose the Board's enforcement staff that those work papers were improperly altered during the July Reopening.

⁴⁰ See PCAOB Rule 5110, *Noncooperation with an Investigation*, and Rule 5200(a)(3), *Commencement of Disciplinary Proceedings*.

⁴¹ See PCAOB Rule 5110(a).

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53. As described above, Respondent failed to cooperate with the Board's investigation by failing to comply with an ABD, using documents knowing them to contain false material declarations, and otherwise failing to cooperate in connection with the Board's investigation.

IV.

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

- A. Pursuant to Sections 105(c)(4)(E) and 105(b)(3)(A)(iii) of the Act and PCAOB Rules 5300(a)(5) and (b)(1), Arturo Vargas Arellano, CPC is hereby censured;
- B. Pursuant to Sections 105(c)(4)(B) and 105(b)(3)(A)(i) of the Act and PCAOB Rule 5300(a)(2) and (b)(1), Arturo Vargas Arellano, CPC is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);⁴²
- C. After five (5) years from the date of this Order, Arturo Vargas Arellano, CPC may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4) and (b)(1), a civil money penalty in the amount of \$50,000 is imposed. 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

⁴² As a consequence of the bar imposed in this Order, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Vargas. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

ORDER

Act. Arturo Vargas Arellano 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 Arturo Vargas Arellano, CPC 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.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 5, 2016