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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Marcelo de los Santos Anaya and  
Martín Rodríguez Martínez,*

Respondents.

PCAOB Release No. 105-2024-005

February 6, 2024

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) barring Marcelo de los Santos Anaya (“de los Santos”) from being an associated person of a registered public accounting firm<sup>1</sup> and imposing on de los Santos a \$125,000 civil money penalty;
- (2) barring Martín Rodríguez Martínez (“Rodríguez” and, collectively with de los Santos, “Respondents”) from being an associated person of a registered public accounting firm<sup>2</sup> and imposing on Rodríguez a \$40,000 civil money penalty; and
- (3) requiring Respondents to each complete 40 hours of continuing professional education (“CPE”), in addition to any CPE required in connection with any professional license, before filing any petition for Board consent to associate with a registered public accounting firm.

The Board is imposing these sanctions on the basis of its findings that Respondents violated PCAOB rules and auditing standards in connection with two audits of an issuer.

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<sup>1</sup> De los Santos may file a petition for Board consent to associate with a registered public accounting firm after five years from the date of this Order.

<sup>2</sup> Rodríguez may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

## 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 (“Act”), and PCAOB Rule 5200(a)(1) against Respondents.

## II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, “Offers”) 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 Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.<sup>3</sup>

## III.

On the basis of Respondents’ Offers, the Board finds that:<sup>4</sup>

### A. Respondents

1. **Marcelo de los Santos Anaya** is, and at all relevant times was, the managing partner and one of three co-owners of Marcelo de los Santos y Cía, S.C. (“MSC” or “Firm”), a member firm of Moore Global Network Limited (“Moore Global”). De los Santos is, and at all relevant times was, 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). He is a registered public accountant licensed under the laws of Mexico (license no. 1649173) and has served for several years as the chair of Moore Mexico, a regional association of Moore Global member firms. He also served as the engagement partner on MSC’s integrated audits of the financial statements

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<sup>3</sup> The findings herein are made pursuant to Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents’ 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: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

and the internal control over financial reporting (“ICFR”) of Grupo Simec, S.A.B. de C.V. (“Simec”) as of and for the fiscal years ended December 31, 2018 and 2019 (“2018 Audit” and “2019 Audit,” respectively, and collectively, the “Audits” or the “2018 and 2019 Audits”).

2. **Martín Rodríguez Martínez** is, and at all relevant times was, a partner of MSC 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). Rodríguez is a registered public accountant licensed under the laws of Mexico (license no. 1064659). Rodríguez performed an engagement quality review (“EQR”) for each of the 2018 and 2019 Audits.

## B. Issuer and Other Relevant Entities

3. **Grupo Simec, S.A.B. de C.V.** is a Mexican corporation headquartered in Jalisco, Mexico. Simec is, and at all relevant times was, an “issuer” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). According to its public filings, Simec has operations in Mexico, the United States, and Brazil, and its business focuses on processing and distributing special bar quality steel and structural steel products.

4. **Marcelo de los Santos y Cía, S.C.** is a civil corporation organized under the laws of Mexico and headquartered in San Luis Potosí, Mexico. MSC is licensed under the laws of Mexico. MSC is and, at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. In connection with the 2018 Audit, MSC issued audit reports dated July 30, 2019, that contained an unqualified opinion on Simec’s 2018 financial statements and an adverse opinion on the effectiveness of Simec’s ICFR. In connection with the 2019 Audit, MSC issued audit reports dated May 27, 2020, that contained unqualified opinions on Simec’s financial statements and ICFR. The Firm also engaged, and relied on the work of, two other audit firms in connection with each of the 2018 and 2019 Audits: one in Brazil to audit Simec’s primary Brazilian subsidiary (the “Brazilian Component Auditor”), and one in the United States to audit Simec’s American subsidiaries (the “U.S. Component Auditor”).<sup>5</sup>

## C. Summary

5. In both planning and executing the 2018 and 2019 Audits, de los Santos violated numerous PCAOB rules and auditing standards. In both Audits, de los Santos failed to exercise due professional care and failed to obtain sufficient appropriate evidence to support MSC’s opinion on Simec’s financial statements and its opinion on the effectiveness of Simec’s ICFR.

6. With respect to Simec’s financial statements, de los Santos failed during the Audits to obtain sufficient appropriate audit evidence concerning the appropriateness of the

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<sup>5</sup> MSC’s audit reports for the 2018 and 2019 Audits did not make reference to other auditors.

presentation of Simec's financial statements, the consolidation of the operations of Simec's subsidiaries into its consolidated financial statements, and the accuracy and completeness of company-prepared reports that de los Santos relied on as audit evidence.

7. With respect to Simec's ICFR, de los Santos failed during the Audits to conduct fundamental procedures, including failing to test controls over numerous significant accounts and failing to evaluate the severity of identified control deficiencies.

8. Despite significant deficiencies in the 2018 and 2019 Audits, including crucial omitted procedures in portions of the Audits that Rodríguez was obligated to review in his role as the EQR partner, Rodríguez gave concurring approval of issuance for both Audits, in violation of PCAOB standards.

#### **D. De los Santos Violated PCAOB Rules and Auditing Standards in Connection With the 2018 and 2019 Audits**

9. 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.<sup>6</sup> PCAOB standards require an auditor to exercise due professional care and professional skepticism, and to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.<sup>7</sup> When evaluating audit results, the auditor is required to conclude on whether sufficient appropriate audit evidence has been obtained to support his or her opinion on the financial statements.<sup>8</sup> Because a company's internal control cannot be considered effective if one or more material weaknesses exist, PCAOB standards require that the auditor plan and perform an integrated audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether material weaknesses exist as of the date specified in management's assessment.<sup>9</sup>

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<sup>6</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*. All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the Audits.

<sup>7</sup> See AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

<sup>8</sup> See AS 2810.33, *Evaluating Audit Results*.

<sup>9</sup> See AS 2201.03, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

10. As described below, de los Santos violated these and other PCAOB standards in connection with the 2018 and 2019 Audits.

**i. Violations Concerning Planning of the 2018 and 2019 Audits**

**a. Failure to Determine Compliance with Independence Requirements**

11. “The engagement partner is responsible for the engagement and its performance. Accordingly, the engagement partner is responsible for planning the audit . . . .”<sup>10</sup> Among the activities that PCAOB standards require an auditor to perform at the beginning of an audit is determining compliance with independence requirements.<sup>11</sup>

12. In turn, PCAOB rules specify that a “registered public accounting firm and its associated persons must be independent of the firm’s audit client throughout the audit and professional engagement period.”<sup>12</sup> “[A] registered public accounting firm or associated person’s independence obligation with respect to an audit client encompasses not only an obligation to satisfy the independence criteria applicable to the engagement 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 [Securities and Exchange Commission (‘SEC’)] under the federal securities laws.”<sup>13</sup>

13. In the 2018 and 2019 Audits, de los Santos determined that the MSC engagement team was independent of Simec based on certain independence representations signed by members of the engagement team. However, those representations stated that the engagement team members were independent in accordance with certain provisions of the professional ethics code of the Instituto Mexicano de Contadores Públicos (Mexican Institute of Public Accountants). Neither those representations nor any other audit documentation for the 2018 and 2019 Audits referenced compliance with, nor reflected any consideration by de los Santos of, PCAOB or SEC independence requirements.

14. Similarly, de los Santos determined that the Brazilian Component Auditor and the U.S. Component Auditor were independent of Simec for the 2018 and 2019 Audits based on a representation obtained from each component audit firm for each audit. However, that representation stated in each instance that the component audit firm had not provided any

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<sup>10</sup> AS 2101.03, *Audit Planning*.

<sup>11</sup> *Id.* at .06b.

<sup>12</sup> PCAOB Rule 3520, *Auditor Independence*.

<sup>13</sup> *Id.* at Note 1.

non-audit services prohibited by certain provisions of International Standards on Auditing (“ISA”) and had no business relationships or arrangements “of common commercial interest with the audit client or its directors/officers/senior client management.” Neither those representations nor any other audit documentation for the 2018 and 2019 Audits addressed, or reflected any consideration by de los Santos of, PCAOB or SEC independence requirements or aspects of auditor independence other than those concerning prohibited non-audit services or common interests.

15. Accordingly, de los Santos violated AS 2101 during the Audits by failing to appropriately determine compliance with applicable independence requirements.

b. Communication of Engagement Terms to Audit Committee

16. Among the activities that an auditor should perform at the beginning of an audit is establishing “an understanding of the terms of the audit engagement with the audit committee in accordance with AS 1301, *Communications with Audit Committees*.”<sup>14</sup> Under AS 1301, the auditor “should record the understanding of the terms of the audit engagement in an engagement letter and provide the engagement letter to the audit committee annually.”<sup>15</sup> The engagement letter should include a description of the objective of the audit which, in the case of an integrated audit, is the expression of an opinion on both the financial statements and effectiveness of ICFR.<sup>16</sup> It should also state that the auditor is responsible for conducting the audit in accordance with PCAOB standards and include a summary of what those standards require.<sup>17</sup>

17. The engagement letters for the 2018 and 2019 Audits failed to state, or otherwise communicate to Simec’s audit committee, that the objective of MSC’s audit was to express an opinion on the effectiveness of Simec’s ICFR. To the contrary, both engagement letters stated that MSC would perform a study and evaluation of Simec’s ICFR, but would not provide assurance as to the adequate functioning of the company’s internal control. The letters also included a list of reports to be issued by MSC each year, but did not mention an ICFR audit report.

18. In addition, neither engagement letter stated, or otherwise communicated to Simec’s audit committee, that MSC was responsible for conducting the audit in accordance with

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<sup>14</sup> AS 2101.06.c.

<sup>15</sup> AS 1301.06.

<sup>16</sup> *Id.* at .C1.

<sup>17</sup> *Id.*

PCAOB standards or that PCAOB standards imposed on MSC certain requirements concerning the planning and performance of an integrated audit. To the contrary, the engagement letters for both audits stated that they would be performed under ISA.

19. Accordingly, de los Santos violated AS 2101 and AS 1301 during the Audits.

**ii. Violations During the 2018 and 2019 Audits Concerning Simec’s Financial Statements and ICFR**

a. Failure to Conduct the Audits in Accordance with PCAOB Standards

20. “In connection with the preparation or issuance of any audit report, a registered public accounting firm and its associated persons shall comply with all applicable auditing standards adopted by the Board and approved by the SEC.”<sup>18</sup> “The auditor is in a position to express an unqualified opinion on the financial statements when the auditor conducted an audit in accordance with the standards of the [PCAOB].”<sup>19</sup> In addition, “[t]he audit of [ICFR] should be integrated with the audit of the financial statements . . . and the auditor must plan and perform the work to achieve the objectives of both audits.”<sup>20</sup>

21. Despite being required to do so, de los Santos did not plan and perform the 2018 and 2019 Audits in accordance with PCAOB auditing standards. Like the engagement letters discussed above, the audit strategy memorandum and the engagement completion document in both Audits also stated that the audit was conducted pursuant to ISA. None of these documents referenced the planning or performance of the audit under PCAOB standards. Moreover, as de los Santos was aware, there is no ISA standard with requirements equivalent to those in AS 2201, and thus, to comply with PCAOB auditing standards, the integrated Audits of Simec required procedures beyond the scope of an ISA audit. However, as described below, de los Santos failed in multiple instances to perform procedures required by AS 2201.

22. Accordingly, de los Santos violated PCAOB Rule 3200, AS 3101, and AS 2201.

b. Failure to Adequately Address Fraud Risks

23. Under PCAOB standards, an auditor “should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit

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<sup>18</sup> PCAOB Rule 3200.

<sup>19</sup> AS 3101.02, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

<sup>20</sup> AS 2201.06.

procedures.”<sup>21</sup> “The auditor’s identification of fraud risks should include the risk of management override of controls.”<sup>22</sup> “When the auditor has determined that a significant risk, including a fraud risk, exists, the auditor should evaluate the design of the company’s controls that are intended to address fraud risks and other significant risks and determine whether those controls have been implemented, if the auditor has not already done so when obtaining an understanding of internal control.”<sup>23</sup>

24. The auditor should also “inquire of the audit committee . . . , the internal audit function, and others within the company who might reasonably be expected to have information that is important to the identification and assessment of risks of material misstatement.”<sup>24</sup> Those inquiries “should include inquiries regarding fraud risks.”<sup>25</sup> “The auditor should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.”<sup>26</sup>

25. “When planning and performing the audit of internal control over financial reporting, the auditor should take into account the results of his or her fraud risk assessment.”<sup>27</sup> “[T]he auditor should evaluate whether the company’s controls sufficiently address identified risks of material misstatement due to fraud and controls intended to address the risk of management override of other controls.”<sup>28</sup>

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<sup>21</sup> AS 2110.04, *Identifying and Assessing Risks of Material Misstatement*; see also AS 2201.10 (“Risk assessment underlies the entire audit process described by this standard, including the determination of significant accounts and disclosures and relevant assertions, the selection of controls to test, and the determination of the evidence necessary for a given control.”).

<sup>22</sup> AS 2110.69.

<sup>23</sup> *Id.* at .72.

<sup>24</sup> *Id.* at .54.

<sup>25</sup> *Id.* at .54, Note; see also *id.* at .56.b.

<sup>26</sup> *Id.* at .68.

<sup>27</sup> AS 2201.14.

<sup>28</sup> *Id.*



26. Despite those requirements, de los Santos failed in the 2018 and 2019 Audits to:
- consider the risk of management override of controls as a fraud risk and respond appropriately;<sup>29</sup>
  - make required inquiries of Simec’s audit committee regarding the risk of fraud;
  - identify which of Simec’s controls, if any, addressed the fraud risks de los Santos had identified; and
  - evaluate whether Simec’s controls were sufficiently designed to address the identified fraud risks.

27. Additionally, in the 2018 Audit, de los Santos failed to presume that there was a fraud risk involving improper revenue recognition or evaluate whether there was a basis to overcome the presumption.

28. Accordingly, de los Santos violated AS 2110 and AS 2201 during the Audits.

c. Failure to Adequately Test Simec’s Journal Entries for Evidence of Possible Material Misstatement Due to Fraud

29. PCAOB standards provide that an auditor “should design procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments . . . made in the preparation of the financial statements.”<sup>30</sup> Among other things, the auditor should “[o]btain an understanding of the entity’s financial reporting process and the controls over journal entries and other adjustments” and should “[i]dentify and select journal entries and other adjustments for testing.”<sup>31</sup>

30. In the 2018 and 2019 Audits, de los Santos failed to obtain an understanding of Simec’s journal entry process, failed to identify controls over journal entries and other

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<sup>29</sup> This failure was particularly acute in connection with the 2019 Audit given the findings of an internal inspection that Moore Global conducted, which included a review of the 2018 Audit (the “Moore Global Inspection”). Those findings, issued in December 2019, identified MSC’s failure to document its consideration of the risk of management override of controls and respond appropriately as a deficiency in the 2018 Audit. However, de los Santos did not take steps to address that failure, and substantially replicated that deficiency, in planning and performing the 2019 Audit.

<sup>30</sup> AS 2401.58, *Consideration of Fraud in a Financial Statement Audit*.

<sup>31</sup> *Id.*

adjustments, and failed to identify and select journal entries and other adjustments for testing with respect to Simec’s Mexican subsidiaries. These subsidiaries held more than 75% of Simec’s total assets and generated more than 50% of its total revenue in each year.

31. The findings from the Moore Global Inspection identified a lack of evidence of journal entry testing in the audit documentation for the 2018 Audit. However, de los Santos failed to address that deficiency or otherwise improve MSC’s journal entry testing during the 2019 Audit.

32. Accordingly, de los Santos violated AS 2401 during the Audits.

**iii. Violations During the 2018 and 2019 Audits Concerning Simec’s Financial Statements**

- a. Failure to Obtain Sufficient Appropriate Audit Evidence to Evaluate Whether Simec’s Consolidated Financial Statements Were Presented Fairly, in all Material Respects, in Conformity with International Financial Reporting Standards

33. PCAOB standards require an auditor to “evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.”<sup>32</sup> “To form an appropriate basis for expressing an opinion on the financial statements, the auditor must plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud.”<sup>33</sup>

34. Simec’s consolidated financial statements for 2018 and 2019 were presented in accordance with International Financial Reporting Standards (“IFRS”). However, the financial statements of Simec’s primary U.S. subsidiary, which constituted approximately 20% of Simec’s total assets and generated approximately 20% of Simec’s total revenue, were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). De los Santos was aware that the U.S. Component Auditor did not audit the schedule of accounting entries proposed by Simec management to convert that subsidiary’s financial statements from U.S. GAAP to IFRS (“Conversion Schedule”). For its part, the MSC engagement team verified the arithmetic of Simec’s Conversion Schedule and—in the 2018 Audit—compared the starting U.S. GAAP amounts on the Conversion Schedule obtained from management to the corresponding U.S. GAAP amounts audited by the U.S. Component Auditor. But de los Santos failed to perform

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<sup>32</sup> AS 2810.30.

<sup>33</sup> AS 1101.03, *Audit Risk*.

any other audit procedures concerning the appropriateness of the U.S. GAAP-to-IFRS conversion for the 2018 and 2019 Audits.

35. Accordingly, de los Santos violated AS 2810 and AS 1101 during the Audits.

b. Failure to Obtain, Review or Retain Sufficient Information to Reconcile Financial Information for Simec’s Subsidiaries to its Consolidated Financial Statements

36. PCAOB standards provide that, “[w]hen using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:

- Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and
- Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.”<sup>34</sup>

37. Further, when an issuer’s financial statements consolidate the results of a subsidiary audited by a separate auditor, the principal auditor of the issuer must “obtain, and review and retain . . . from the other auditor . . . [s]ufficient information to enable the office issuing the auditor’s report to agree or reconcile the financial statement amounts audited by the other firm to the information underlying the consolidated financial statements.”<sup>35</sup>

38. During the 2018 and 2019 Audits, Simec manually created and populated an Excel spreadsheet that aggregated the financial information of Simec’s subsidiaries and that served as the basis for the consolidated financial statements (“Manual Consolidation Spreadsheet”). De los Santos relied upon the Manual Consolidation Spreadsheet as audit evidence because it showed that the total of the subsidiary-level balances, which were purportedly subject to audit, agreed to the amounts reported in the consolidated financial statements. However, de los Santos failed to test the accuracy and completeness of the

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<sup>34</sup> AS 1105.10.

<sup>35</sup> AS 1205.12.e, *Part of the Audit Performed by Other Independent Auditors*.

amounts presented in this spreadsheet, even though he was aware of deficiencies in Simec's ICFR related to the consolidation process.<sup>36</sup>

39. In addition, de los Santos failed in the 2019 Audit to obtain sufficient information and perform sufficient procedures to determine whether the U.S. subsidiary-level balances included in the Manual Consolidation Spreadsheet were, in fact, the same underlying balances that were subject to audit by the U.S. Component Auditor.

40. Accordingly, de los Santos violated AS 1105 during the Audits and also violated AS 1205 during the 2019 Audit.

**iv. Violations During the 2018 and 2019 Audits Concerning Simec's ICFR**

41. At the time of the 2018 and 2019 Audits, de los Santos was aware that Simec had a history of material weaknesses in its ICFR that the company had failed to remediate. He also knew that: (a) the SEC had issued a cease and desist order in January 2019 that addressed material weaknesses in Simec's ICFR from 2008 through 2017;<sup>37</sup> (b) Simec had a history of failing to remediate those material weaknesses; and (c) Simec's management had failed to perform its required assessment of ICFR in 2015 and 2016.

**a. Failure to Obtain ICFR-Related Management Representations**

42. PCAOB standards list a number of specific representations that an auditor conducting an audit of ICFR should obtain in writing from company management.<sup>38</sup> Those representations include an acknowledgement of management's responsibility for establishing and maintaining effective ICFR, a statement that management has evaluated and assessed the effectiveness of the company's ICFR, and a representation that management has disclosed to the auditor all deficiencies in the design or operation of ICFR identified during management's evaluation.<sup>39</sup>

43. In each of the 2018 and 2019 Audits, MSC obtained a management representation letter from Simec containing management representations concerning Simec's financial statements, as well as a representation that acknowledged management's

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<sup>36</sup> De los Santos's failure to ensure that MSC tested the completeness and accuracy of this information produced by the company in connection with the 2019 Audit was particularly acute given that the same issue was identified as a deficiency in the 2018 Audit by the Moore Global Inspection.

<sup>37</sup> See *Grupo Simec S.A.B. de C.V.*, Exchange Act Rel. No. 84996, 2019 WL 364618 (Jan. 29, 2019).

<sup>38</sup> AS 2201.75.

<sup>39</sup> *Id.*

responsibility for establishing and maintaining effective ICFR. However, the letter in each of the Audits omitted—and de los Santos did not otherwise obtain—the required representations that management had evaluated and assessed ICFR effectiveness and had disclosed to MSC all ICFR deficiencies it had identified.

44. Accordingly, de los Santos violated AS 2201.

b. Failure to Test Controls Concerning Fourteen Significant Accounts

45. PCAOB standards provide that an auditor “should test those controls that are important to the auditor’s conclusion about whether the company’s controls sufficiently address the assessed risk of misstatement to each relevant assertion.”<sup>40</sup>

46. For the 2019 Audit, de los Santos performed a risk assessment that identified Simec’s significant accounts and the relevant assertion(s) for each. Despite identifying those accounts and assertions, de los Santos failed to evaluate whether Simec had designed or implemented any internal controls to address them.

47. Indeed, de los Santos failed to test any controls that addressed his assessed risk of material misstatement for any of the relevant assertions of the following accounts: (1) Cash and equivalents, (2) Related party accounts receivable, (3) Recoverable taxes, (4) Other receivables, (5) Prepaid expenses, (6) Property, plant, and equipment, (7) Intangibles, (8) Accounts payable, (9) Related party accounts payable, (10) Taxes and contributions payable, (11) Other accounts payable, (12) Income taxes payable, (13) Deferred income taxes, and (14) Stockholders’ equity. Five of those accounts—Cash and equivalents, Related party accounts receivable, Property, plant and equipment, Intangibles, and Related party accounts payable—were assessed as having one or more significant risks during the 2019 Audit. Another five accounts were assessed as being higher-risk audit areas.

48. Accordingly, in this manner too, de los Santos violated AS 2201 during the 2019 Audit.

c. Failure to Evaluate the Severity of Control Deficiencies Identified by Component Auditors

49. PCAOB standards require an auditor to “evaluate the severity of each control deficiency that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses as of the date of management’s assessment.”<sup>41</sup> The

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<sup>40</sup> AS 2201.39.

<sup>41</sup> *Id.* at .62.

auditor should evaluate the effect of compensating controls when determining whether a control deficiency, or combination of deficiencies, is a material weakness.<sup>42</sup> The auditor should also consider whether any deficiencies, alone or in combination, identified during the audit are significant deficiencies and, if so, communicate them in writing to the audit committee.<sup>43</sup>

50. With respect to the 2018 Audit, the Brazilian Component Auditor provided MSC with a reporting package concerning its audit of Simec's Brazilian subsidiary. The Brazilian Component Auditor identified in that reporting package four deficiencies that it believed constituted material weaknesses in the ICFR of the Brazilian subsidiary. The U.S. Component Auditor also identified and communicated to MSC four deficiencies that it believed constituted material weaknesses in the ICFR at Simec's U.S. subsidiaries. Each of the deficiencies identified by the component auditors related to a significant risk that MSC had identified, specifically, the risk that Simec's financial statements could be materially misstated due to improper conversion and consolidation of subsidiary financial information. Nonetheless, de los Santos failed to evaluate the severity of the deficiencies the component auditors had identified.

51. Similarly, with respect to the 2019 Audit, the Brazilian Component Auditor's reporting package to MSC identified five deficiencies in the ICFR of Simec's Brazilian subsidiary, and the U.S. Component Auditor reported three deficiencies in the ICFR of Simec's U.S. subsidiaries. The component auditors believed that the deficiencies they identified constituted material weaknesses. Again, all of those deficiencies related to the identified significant risk that Simec's financial statements could be materially misstated due to improper conversion and consolidation of subsidiary financial information. However, once again, de los Santos failed to evaluate the severity of the deficiencies reported by the component auditors.

52. For these reasons too, de los Santos violated AS 2201 during the Audits.

d. Failure to Evaluate Whether Control Deficiencies Identified in Previous Years as Material Weaknesses Had Been Remediated

53. PCAOB standards require the auditor to evaluate whether control deficiencies previously communicated to the audit committee are important to the company's financial statements and ICFR and, if so, how they will affect the auditor's procedures.<sup>44</sup> Moreover, if audit evidence obtained from one source is inconsistent with that obtained from another, the

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<sup>42</sup> *Id.* at .68.

<sup>43</sup> *Id.* at .80.

<sup>44</sup> AS 2201.09.

auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.<sup>45</sup>

54. Simec management disclosed in its 2018 Form 20-F that the company's ICFR was ineffective as of December 31, 2018. This conclusion was based on material weaknesses identified in management's ICFR assessment for the 2018 annual period as well as material weaknesses identified in each of management's four preceding annual assessments, from 2014 through 2017. However, MSC's ICFR audit report for 2018 made references to only material weaknesses Simec had identified as of year-end 2018. De los Santos failed to evaluate whether the material weaknesses identified by management from 2014 through 2017 had, in fact, been remediated as of December 31, 2018, or alternatively, whether these previously deficient controls had been superseded by new controls that achieved the related control objectives.

55. In planning the 2019 Audit, de los Santos noted that Simec had a number of material weaknesses in prior audit years and was subject to investigation by the SEC for failure to remediate those material weaknesses. De los Santos also knew that Simec had engaged a third-party consultant who assisted management in taking corrective actions in response to the previously disclosed material weaknesses and that management thereafter concluded that it had fully remediated the previously disclosed material weaknesses by year-end 2019. Despite obtaining evidence during the 2019 Audit that several of those material weaknesses had not been remediated, de los Santos failed to perform any procedures to resolve these inconsistencies. Further, de los Santos nevertheless authorized the issuance of MSC's unqualified ICFR audit report for 2019.

56. Accordingly, de los Santos committed these additional violations of AS 1105 and AS 2201 in the Audits.

## **E. De los Santos Failed to Make Required Audit Committee Communications**

57. PCAOB standards and other provisions of the securities laws provide that auditors should communicate certain information to an issuer's audit committee. In violation of those provisions, de los Santos failed to communicate the following matters to Simec's audit committee in connection with the 2018 and 2019 Audits:

- all significant risks identified during risk assessment procedures;<sup>46</sup>

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<sup>45</sup> AS 1105.29.

<sup>46</sup> See AS 1301.09.

- the extent to which MSC’s engagement team planned to use the work of internal auditors;<sup>47</sup>
- Simec’s critical accounting policies, practices, and accounting estimates;<sup>48</sup>
- uncorrected and corrected misstatements;<sup>49</sup> and
- other material written communications between the engagement team and management, such as the management representation letter.<sup>50</sup>

58. Accordingly, de los Santos violated AS 1301, AS 2805, Exchange Act § 10A(k), and Rule 2-07(a) of SEC Regulation S-X in connection with the Audits.

#### **F. Rodríguez Violated PCAOB Auditing Standards in Connection with His EQRs of the 2018 and 2019 Audits**

59. PCAOB standards provide that, “[i]n an audit engagement, the engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.”<sup>51</sup> As is the case with members of the engagement team, an engagement quality reviewer should exercise due professional care and professional skepticism.<sup>52</sup>

60. An engagement quality reviewer should evaluate the “engagement team’s assessment of, and audit responses to . . . [s]ignificant risks identified by the engagement team, including fraud risks.”<sup>53</sup> In the 2018 and 2019 Audits, Rodríguez knew that Simec had disclosed

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<sup>47</sup> See *id.* at .10.

<sup>48</sup> See *id.* at .12.b, .12.c; Securities Exchange Act of 1934 (“Exchange Act”) § 10A(k)(1), 15 U.S.C. § 78j-1(k)(1); Rule 2-07(a)(1) of SEC Regulation S-X, 17 C.F.R. § 210.2-07(a)(1).

<sup>49</sup> See AS 1301.18-.19.

<sup>50</sup> See *id.* at .20; AS 2805.05, *Management Representations* (“The auditor should provide a copy of the representation letter to the audit committee if management has not already provided the representation letter to the audit committee.”); Exchange Act § 10A(k)(3), 15 U.S.C. § 78j-1(k)(3); Rule 2-07(a)(3) of SEC Regulation S-X, 17 C.F.R. § 210.2-07(a)(3).

<sup>51</sup> AS 1220.09, *Engagement Quality Review*.

<sup>52</sup> See AS 1015.02.

<sup>53</sup> AS 1220.10.b.



various material weaknesses in its ICFR in the most recent Form 20-Fs it filed with the SEC and that the engagement team planned to evaluate the adequacy of any remedial actions taken by Simec during the subsequent year. He also knew that certain prior-year material weaknesses—including with respect to Simec’s process for preparing consolidated financial statements—had been identified as significant risks and/or fraud risks by the engagement teams in the 2018 and 2019 Audits. However, during both Audits, Rodríguez failed to evaluate the engagement teams’ assessment of and response to these significant and/or fraud risks with due professional care.

61. An engagement quality reviewer should also evaluate the “significant judgments made about . . . the severity and disposition of identified control deficiencies.”<sup>54</sup> As part of his EQRs for the 2018 and 2019 Audits, Rodríguez represented that he had reviewed the engagement teams’ evaluation of internal control and the relevant work papers to evaluate the engagement teams’ critical judgments and that, based on his review, all pending matters were resolved before the audit reports were signed. However, as discussed above, the engagement teams for the 2018 and 2019 Audits failed to evaluate the severity of identified ICFR deficiencies.

62. PCAOB standards also require an engagement quality reviewer to review “the engagement team’s evaluation of the firm’s independence in relation to the engagement.”<sup>55</sup> The engagement teams for the 2018 and 2019 Audits failed to evaluate their (and the component auditors’) independence in accordance with PCAOB and/or SEC requirements and, instead, supplied and obtained independence representations that solely referenced ISA and Mexican requirements. Rodríguez failed to review the engagement team’s evaluation of its independence with due professional care and, consequently, failed to identify that deficiency.

63. As discussed above, de los Santos in the 2018 and 2019 Audits failed to make a number of required communications to Simec’s audit committee. An engagement quality reviewer should evaluate “whether appropriate matters have been communicated, or identified for communication, to the audit committee.”<sup>56</sup> Rodríguez failed to perform that evaluation with due professional care. Specifically, despite indicating in each of the Audits that he had reviewed all relevant communications with Simec’s audit committee as part of his EQR, Rodríguez failed to identify that those communications omitted numerous required communications.

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<sup>54</sup> *Id.* at .10.c.

<sup>55</sup> *Id.* at .10.d.

<sup>56</sup> *Id.* at .10.i.

64. An engagement quality reviewer should also determine whether the audit documentation he or she reviews indicates “that the engagement team responded appropriately to significant risks” and supports “the conclusions reached by the engagement team with respect to the matters reviewed.”<sup>57</sup> In the 2019 Audit, Rodríguez provided concurring approval of issuance of MSC’s audit report expressing an unqualified ICFR opinion despite reviewing audit documentation indicating that the engagement team (a) had not appropriately evaluated whether Simec had remediated certain material weaknesses disclosed by Simec in its 2018 Form 20-F; and (b) had not evaluated the severity of identified ICFR deficiencies.

65. Accordingly, Rodríguez violated AS 1015 and AS 1220.

#### 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 Respondents’ Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Marcelo de los Santos Anaya 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);<sup>58</sup>
- B. After five years from the date of this Order, Marcelo de los Santos Anaya may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Martín Rodríguez Martínez is barred from being an “associated person of a registered

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<sup>57</sup> *Id.* at .11.

<sup>58</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to de los Santos. 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.”

public accounting firm” as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>59</sup>

- D. After two years from the date of this Order, Martín Rodríguez Martínez may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- E. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4): (i) a civil money penalty in the amount of \$125,000 is imposed on Marcelo de los Santos Anaya; and (ii) a civil money penalty in the amount of \$40,000 is imposed on Martín Rodríguez Martínez.
  - 1. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act.
  - 2. Each Respondent shall pay his civil money penalty within ten days of the issuance of this Order by: (1) wire transfer in accordance with instructions provided 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 Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the individual 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.
  - 3. Respondents understand that their failure to pay the civil money penalties imposed upon them may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b).

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<sup>59</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, discussed in footnote 58, above, will also apply with respect to Rodríguez.

4. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
  5. With respect to any civil money penalty amounts that Respondents shall pay pursuant to this Order, Respondents shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondents' payment of the civil money penalties pursuant to this Order, in any private action brought against one or both Respondents based on substantially the same facts as set out in the findings in this Order.
- F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Marcelo de los Santos Anaya and Martín Rodríguez Martínez are each required to complete, prior to filing any petition to terminate his bar and for Board consent to reassociate with a registered public accounting firm, 40 hours of continuing professional education and training relating to PCAOB auditing standards (such hours shall be in addition to, and shall not be counted in, the continuing professional education each Respondent is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

February 6, 2024