



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

November 21, 2012

To: New Mexico State Agency IPAs

From: Hector Balderas
NM State Auditor

Handwritten signature of Hector Balderas in blue ink.

RE: Financial Reporting Directive on Independent Auditor Judgment

This directive is being issued in conjunction with the Directive sent by my Office on October 31, 2012, and pursuant to Section 12-6-3 NMSA 1978, which provides that "audits shall be conducted in accordance with generally accepted auditing standards and rules issued by the State Auditor". We would like to highlight the following standards as they relate to auditor consideration of the General Fund Investment Pool reconciliation.

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent (GAS 3.02).

GAS 1.19 provides "the credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes independence of mind and appearance when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments may impact objectivity". GAS 3.64 further establishes "using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities" including following the independence standards and related conceptual framework and maintaining objectivity and credibility.

The Department of Finance and Administration (DFA) Financial Control Division (FCD) has provided "disclosure language explaining the facts about the lack of a General Fund Investment Pool reconciliation as of June 30, 2012", which was circulated November 12, 2012 by DFA Financial Control Division via email from Emily K. Oster. Each IPA should use their independent auditor judgment in assessing the language provided by the DFA FCD as it applies to the agency they are auditing and revise the language as necessary. 1301.3 GASBC No. 3, paragraph 37 cautions that notes should be management's *objective* explanations to users, and should never be subjective assessments of the effects of the government's operations on future position or predictions about the effects of future (planned) events.

Furthermore, Section 6-5-2.1(J) NMSA 1978 requires DFA to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies. According to GASB 34, the "notes to the financial statements consist of notes that provide information that is *essential* to a user's understanding of the basic financial statements." As such, in order to avoid potentially misleading the users of the respective agency's audit report, the IPA should consider inclusion in the note disclosure that the DFA is the agency responsible for the reconciliation pursuant to state law.

If you have any questions, please contact Natalie Cordova at 505-476-3800 or via email at natalie.cordova@osa.state.nm.us.

cc: Agency CFOs