



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

TO: All Government Agencies and Independent Public Accountants (IPA)

FROM: Hector H. Balderas, State Auditor

SUBJECT: Implementation of Auditor Rotation Rule, Section 2.2.2.8(C)(1)(b) NMAC (2009)

DATE: February 27, 2009

The Office of the State Auditor (OSA) has changed the criteria for the auditor rotation requirement. The new rule, Section 2.2.2.8(C)(1)(b) NMAC (2009), is as follows:

- An IPA is prohibited from conducting an agency's audit for a period of two years if the IPA conducted the agency audit for a period of:
 - six consecutive years and for at least one of those years the audit fees exceeded \$50,000, excluding gross receipts tax; or
 - ten consecutive years and each year the audit fees did not exceed \$50,000, excluding gross receipts tax.

The OSA will implement the rotation rule's new provision allowing an IPA to conduct an agency's audit for ten consecutive years as follows; provided the audit fees did not and do not exceed \$50,000, excluding gross receipts tax, prior to February 27, 2009 or after February 27, 2009:

- An IPA who, as of February 27, 2009, is conducting an agency's audit for at least one or more consecutive years is eligible to conduct that agency's audit for a cumulative period not to exceed ten years; and
- An IPA who, as of February 27, 2009, is currently in the first year of rotation pursuant to the previous auditor rotation rule is eligible to conduct the agency's audit for a period of ten consecutive years beginning in 2009.

Examples:

- IPA Firm X conducted the audits for County Y for fiscal years 2002 through 2008 at a cost of \$25,000 annually. IPA Firm X is eligible to conduct County Y's audit through fiscal year 2012, provided the audit fees do not exceed \$50,000 annually.
- IPA Firm B conducted the audits for State Agency C for fiscal years 2005 through 2008 at a cost of \$45,000 annually. IPA Firm B is eligible to conduct State Agency C's audit through fiscal year 2015, provided the audit fees do not exceed \$50,000 annually.
- IPA Firm Q conducted the audits for School District R for fiscal years 2001 through 2007 at a cost of \$35,000 annually. IPA Firm Q is currently completing its first year of required rotation under the previous rotation rule. IPA Firm Q is eligible to conduct School District R's audit from fiscal year 2009 through fiscal year 2019, provided the audit fees do not exceed \$50,000 annually.
- IPA Firm F conducted the audits for Municipality G for fiscal years 2001 through 2007 at a cost of \$51,000 annually. IPA Firm F is currently completing its first year of required rotation under the previous rotation rule. IPA Firm Q is not eligible to conduct Municipality G's audit until fiscal year 2010.

Please note that in calculating an agency's annual audit fees, the OSA includes any the amount of any contract amendments.

If you have any questions about the new auditor rotation rule or the audit contracting process, please contact Frank Valdez at (505) 476-3800.