

## **2021 Audit Rule**

### **Summary of Changes**

**2.2.2.2 NMAC:** Clarified scope of Audit Rule to include reference to “local public bodies”, “transactions” and other “professional services” to more closely align with Audit Act, including at NMSA 1978, Section 12-6-3.

**2.2.2.5 NMAC:** Effective Date now March 23, 2021, which is the date the new Audit Rule will be published.

**2.2.2.6 NMAC:** Replaced reference to “forensic audits” with more general “forensic accounting engagements” to better describe types of applicable engagements.

**2.2.2.7 (A)(4) NMAC:** Added definition for “Attest engagement”.

**2.2.2.7 (A)(5) NMAC:** The definition for “Audit” revised to replace “forensic audit” with “forensic accounting engagement”.

**2.2.2.7 (A)(6) NMAC:** Added “performing audit or attest work as defined in the Public Accountancy Act” to the definition of “Auditor”.

**2.2.2.7 (C)(3) NMAC:** Added definition for “CUISP”, the Committee on Uniform Securities Identification Procedures.

**2.2.2.7 (E)(1) NMAC:** Added definition for “ECECD”, the New Mexico Early Childhood Education and Care Department.

**2.2.2.7 (I)(1) NMAC:** The definition for “IPA” revised to add “performing professional services for agencies and local public bodies” for further clarity.

**2.2.2.7 (N)(4) NMAC:** Added definition for “Non-attest engagement”.

**2.2.2.7 (R)(3) NMAC:** The definition for “Report” revised to replace “forensic audit” with “forensic accounting engagement”.

**2.2.2.7 (S)(4) NMAC:** Added definition for “Special audit”.

**2.2.2.8 (A) NMAC:** Clarified the approved firms list pertains to attest engagements, including audits and AUPs.

**2.2.2.8 (A)(2) NMAC:** Removed the requirement to list professional service contracts in the firm profile.

**2.2.2.8 (B) NMAC:**

- Changed the word shall to may in the following sentence: “An IPA that is included on the state auditor’s list of approved firms for the first time “may” be subject to an OSA quality control review of the IPA’s working papers.”
- Added clarification “as posted on the OSA’s audit reports website” to the following sentence: “This review shall be conducted as soon as the documentation completion date,

as defined by AU-C Section 230, has passed (60 days after the report release date, “as posted on the OSA’s audit reports website”.

- Added references to “other attest engagements” for clarity.
- Added clarification that first that only perform non-attest engagements, or otherwise do not meet applicable requirements, shall not be included on the list of approved firms.

**2.2.2.8 (C) NMAC:** Added “for audit, AUP, and other attest engagements” for clarity as to applicability.

**2.2.2.8 (D)(1)(o) NMAC:** Added to restriction section regarding deficiency considerations to include failure to have contracts for non-attest services approved by the OSA.

**2.2.2.8 (F) NMAC:** Clarified applicable engagement types.

**2.2.2.8 (F)(5) NMAC:** Clarified applicable engagement types.

**2.2.2.8 (F)(6) NMAC:** Clarified applicable engagement types. Removed the sentence: “Note that the IPA recommendation form no longer exists as a separate document, because OSA-Connect gathers and delivers to the OSA the information historically submitted on the IPA recommendation form.”

**2.2.2.8 (G)(1) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”.

**2.2.2.8(G)(1)(b)(i) NMAC:** Added language providing for more flexibility with respect to the rotation requirement; changed 6 years to 8 years and removed reference to “AUP engagements”.

**2.2.2.8 (G)(2) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”. Removed “audit or AUP” preceding “reports” in Subsection J.

**2.2.2.8 (G)(3) NMAC:** Added “contract” after “audit” for clarity. Replaced “forensic audit” with “forensic accounting engagement”.

**2.2.2.8 (H) NMAC:** Abbreviated agreed-upon procedures to AUP and added e-mail as an option for OSA to provide an audit or AUP engagement contract to agencies.

**2.2.2.8 (L) NMAC:** Moved necessary portions of (L)(1) and (L)(2) to 2.2.2.15(B)(3) NMAC. Changed reference to “current” from “December 2018 revision”, removed GAGAS citation.

**2.2.2.8 (M)(3) NMAC:** Changed the percentage from seventy to sixty-nine in the following sentence “Progress payments up to “sixty-nine” percent do not require state auditor approval provided that the agency certifies the receipt of services before any payments are made to the IPA.”

**2.2.2.8 (N)(1) NMAC:** Replaced “may” with “shall” with regard to submitting contract amendments to the OSA. Clarified applicable types of engagement.

**2.2.2.9 (A) NMAC :** Added a requirement that annual financial audit reports shall be submitted electronically. Replaced the requirement to submit an organized bound copy.

**2.2.2.9 (A)(1)(d) NMAC:** Added ECECD to the list of agencies with a due date of November 15<sup>th</sup>.

**2.2.2.9 (A)(3) NMAC:** Added a requirement that all reports will be submitted electronically. Replaced the requirement to submit an organized bound copy. Removed postmarked requirements.

**2.2.2.9 (B)(1) NMAC:** Added a requirement that the annual financial audit report shall be submitted electronically. Removed postmarked requirements.

**2.2.2.9 (B)(3)(k) NMAC:** Added a requirement to include the OSA agency number in final audit report file name.

**2.2.2.10 (A) NMAC:** Removed the words “Scope of” from the subsection title.

**2.2.2.10 (A)(1)(a) NMAC:** Removed statement requiring OSA permission to present a component unit as other than discreet presentation, deferring instead to GASBS guidance.

**2.2.2.10 (D)(4) NMAC:** Clarified the language regarding preparing financial statements in their entirety from a client-provided trial balance, and referred IPAs to the GAGAS conceptual framework for evaluating independence.

**2.2.2.10 (E)(1) NMAC:** Added language clarifying that audit documentation including working papers are the property of the IPA or certificate holder per Subsection A of Section 61-28B-25 NMSA 1978.

**2.2.2.10 (E)(2) NMAC:** Added clarifying language: “State auditor review of audit documentation does not transfer the ownership of the documents. Ownership of the audit documentation is maintained by the IPA or responsible certificate holder.”

**2.2.2.10 (H)(1) NMAC:** Replaced “workpapers” with “audit documentation”.

**2.2.2.10 (J)(1) NMAC:** Added a requirement that “All agencies must retain support for procurement until the contract expires or the minimum time required for record retention is met, whichever is longer.”

**2.2.2.10 (J)(6) NMAC:** Added language requiring IPA’s to evaluate “and test internal” controls as related to PERA.

**2.2.2.10 (J)(7) NMAC:** Added language requiring IPA’s to evaluate “and test internal” controls as related to ERA.

**2.2.2.10 (J)(17) NMAC:** Added language regarding NMRHCA to reflect requirements for PERA and ERA: “The IPA shall evaluate and test internal controls regarding employee eligibility for NMRHCA and other benefits. IPAs shall evaluate risk associated with employees excluded from NMRHCA and test that employees are properly excluded.”

**2.2.2.10 (L)(1) NMAC:** Added an example of how findings should be numbered for clarity: (i.e., 2021-001 (2020-003)).

**2.2.2.10 (M)(4) NMAC:** Added “as described in 2.2.2.9(B)(4)(a) NMAC” for further clarification on waiver.

**2.2.2.10 (M)(5) NMAC:** Added “OSA and the” preceding “IPA shall not disclose audit documentation if such disclosure would undermine the effectiveness or integrity of the audit process.”

**2.2.2.10 (N)(2) NMAC:** Added clarifying language regarding notifications. Added “non-attest accounting engagement” to types of engagements required to follow 2.2.2.15 NMAC when entering into a professional services contract.

**2.2.2.10 (P)(3)(f) NMAC:** Removed requirement for IPAs auditing cash of state agencies to obtain a confirmation of cash at the individual agency level from STO.

**2.2.2.10 (P)(4)(d) NMAC:** Revised sentence marginally for clarity. Sentence now reads: “To determine compliance with the one hundred two percent pledged collateral requirement of Section 6-10-10 NMSA 1978, the disclosure shall include the dollar amount of the following for each repurchase agreement: one hundred two percent pledged collateral requirement per statute, and total pledged collateral.”

**2.2.2.10 (R)(2)(a) NMAC:** Removed portion of first sentence that stated “... funded by severance tax bonds or general obligation bonds of the state”. The sentence now reads “Special, deficiency, specific, and capital outlay appropriations shall be disclosed in the notes to the financial statements.”

**2.2.2.10 (Y)(2) NMAC:** Removed the illustrative example from GASB’s Comprehensive Implementation Guide, Chapter 5.

**2.2.2.10 (Z) NMAC:** Changed subsection title to “GASBS 77, tax abatement agreements”. Removed federal references.

**2.2.2.10 AA (4) NMAC:** Removed requirement for a concurring review of the schedule of employer allocations for for retiree health care authority.

**2.2.2.13 (D) NMAC:** Added clarification that “Results of work paper reviews are confidential audit documentation.”

**2.2.2.14 (A and B) NMAC:** Removed redundant information on CPE. Added language clarifying type of applicable engagements.

**2.2.2.14 (B)(6) NMAC:** Deleted the word “his” and added the word “the” to make the firm gender neutral in the following sentence: “If a CPA is performing any type of attest work subject to this rule, “the” firm shall maintain a New Mexico firm permit.

**2.2.2.14 (C) NMAC:** Replaced “shall” with “may” with respect to quality control review for IPAs appearing on the OSA’s list of approved firms for audit and AUP engagements.

**2.2.2.15 NMAC:** Revised section title due to new defined terms in Audit Rule.

**2.2.2.15 (A)(5) NMAC:** Clarified confidentiality provisions and added references to other applicable provisions within the Audit Rule.

**2.2.2.15 (B) NMAC:** Revised subsection title due to new defined terms in Audit Rule.

**2.2.2.15 (B)(1) NMAC:** Replaced “forensic audits” with “forensic accounting engagements”. Added “It also includes engagements performed under the forensic services standards issued by the AICPA and engagements performed following the Code of Professional Standards issued by the Association of Certified Fraud Examiners (ACFE).”

**2.2.2.15 (B)(2) NMAC:** Replaced “forensic audits” with “forensic accounting engagements”.

**2.2.2.15 (B)(3) NMAC:** Replaced “forensic audits” with “forensic accounting engagements”. Replaced “audit” with “engagement”.

**2.2.2.15 (B)(7) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”.

**2.2.2.15 (B)(9) NMAC:** Replaced “forensic audits” with “forensic accounting engagements”. Added reference to “forensic services” and “other professional standards”. With respect to finding requirements, distinguished between attest and non-attest engagements.

**2.2.2.15 (B)(10) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”. Added “if applicable”.

**2.2.2.15 (B)(11) NMAC:** Replaced “audit” with “accounting” in reference to forensic engagements.

**2.2.2.15 (C) NMAC:** Revised subsection title due to new defined terms in Audit Rule.

**2.2.2.15 (C)(1) NMAC:** Replaced “forensic audits” with “forensic accounting engagements”.

**2.2.2.15 (C)(2) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”. Referenced 2.2.2.10 (F) NMAC regarding restrictions on engagement letter.

**2.2.2.15 (C)(3) NMAC:** Replaced “forensic audit” with “forensic accounting engagement”.

**2.2.2.15 (D) NMAC:** Added subsection on finding requirements for special audits or examinations.

**2.2.2.16 (F)(3) NMAC:** Context changed to allow the IPA and the and the local public body to agree upon how the exit conference will occur. This now reads as “The exit conference shall occur in the forum agreed to by the local public body and the IPA, to include virtual or telephonic options. The OSA reserves the right to require an in-person exit conference.”

**2.2.2.16 (F)(4) NMAC:** Replaced the word “audit” with “AUP” in regards to the report.

**2.2.2.16 (J) NMAC:** The requirement to submit an electronic version of the findings summary form was removed as it is no longer required.