



# Manning Accounting and Consulting Services, LLC

March 11, 2024

Joseph M. Maestas, P.E., State Auditor  
State of New Mexico, Office of the State Auditor  
2540 Camino Edward Ortiz, Suite A  
Santa Fe, New Mexico 87507

Re: Public Comment on 2024's Notice of Changes to the State Audit Rule

We have reviewed the proposed changes to the 2024 audit rule. As a small firm, we have several issues we would like to raise with the proposed change in the rotation rule from eight (8) years to six (6) years.

- Independence – We can only surmise this change has to do with the appearance of independence of auditors. However, we know of no studies or rulings by oversight boards which would indicate eight years raises independence concerns, as opposed to six years. The Audit Rule over the past 12 years has been ten years, six years, and eight years for audit rotation requirements. Of those, eight years appears to hit the sweet spot for knowledge of a client and performing efficient audits while not being of serious concern for independence. Is there any real issue of independence with conscientious firms at eight years, or is this just a change because we need to change something?
- Planning – We would estimate many firms and clients who are in years six, seven, and eight of audits have already begun the scheduling and planning process, at least if they attempt to have efficient and on-time audits. Our firm already has scheduled dates for prelim and final on-site visits with all our state audits. The clients have booked those dates for us to be on-site. Part of this process is to schedule travel in the most efficient manner with entities in the same area of the state, and this includes entities we would be completing years seven and eight for rotation purposes. Throwing that out in April does not seem wise as some auditor selections are supposed to be made by May 1<sup>st</sup> to avoid an audit finding.
- Revenue Flow – While some may say this should not be an issue for discussion in such a change, in reality it is. Many firms try to balance out their audits so that there is a logical and systematic alignment with audits and which years they would fall off on the rotation rule so as to not create huge drop-offs. In this case, a firm would not only be losing their audits that completed year eight in the prior year but also years six and seven. As such, instead of losing 1/8 of audits and their revenue, a firm now is losing 3/8 of their audits and revenue. For a small firm, that can be devastating. It is a hit to a larger firm as well, but if both lose those anticipated revenues and are unable to replace them in the current year, adjusting is much harder on the small firm. Large firms normally have a pretty consistent turnover in personnel year-to-year, so they can choose to not fill positions that come open. A small firm like ours that has had no turnover in the past six years and only one position turnover in twelve years has no flexibility with staffing.
- Overloading Schedule – Even if a one-year grace period is allowed for this change, a firm would really have to consider trying to load up on any audits in the current year to offset a three-year drop-

off in audits in 2025 to survive the revenue drop. This would tend to create the potential for rushed audits and/or late audits, neither of which would be in the best interest of the client or the state.

- Agreed-upon Procedures (AUP) – While this change would cause significant issues with all the agencies being audited, we believe it would be even worse for those entities required to get AUPs. There are already a limited number of firms that find it worthwhile to perform AUPs, which provides limited options for these entities. Many of these entities have volunteers who are responsible for getting their auditor selection process done. Additionally, the Department of Finance Authority – Local Government Division (DFA-LGD) has just required a significant change in the budgeting and reporting process for these small entities which has frustrated their volunteers and has caused some to quit as treasurers. This is not a good time to put additional stress on entities which the State Auditor’s Office has struggled to keep current with their audits and AUPs.

We hope that the Office of the State Auditor consider the issues we have raised with the proposed change of the audit rotation rule from eight years to six years.

We thank you for this opportunity to comment on these proposed changes.

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