



March 5, 2024

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

RE: Request for Public Comment – 2024 Proposed New Mexico State Audit Rule

Dear State Auditor Maestas,

I hope this letter finds you well. My name is Daniel O. Trujillo, CPA, CFE, CGFM, CGMA, and I am writing to you in my capacity as Managing Partner of TKM, LLC (Formerly Kubiak Melton & Associates, LLC), a New Mexico CPA firm based in Albuquerque. Our firm has closely reviewed the proposed 2024 Audit Rule and would like to formally submit our public comment.

Upon our review of the proposed 2024 Audit Rule 2.2.2 NMAC, we identified a proposed change to 2.2.2.8(3) NMAC – *Auditor Rotation Rule* that will put undue burden on New Mexico state agencies, local public bodies, other New Mexico governments, and IPAs that fall under your purview. Specifically, changing mandatory auditor rotation from eight (8) years down to six (6) years. While we understand the intention behind this proposal—to ensure freshness in perspective—there are several challenges and implications that we believe warrant careful consideration. We are concerned that this change might inadvertently affect both the governmental entities we serve and the auditing profession in several ways:

- 1. Learning Curve and Efficiency:** The initial years of an auditor's engagement with an entity involve a steep learning curve as the auditor acquires an in-depth understanding of the entity's operations, systems, and processes. Reducing the rotation period could mean that just as an auditor becomes fully efficient and deeply familiar with the entity, it would soon be time to rotate, potentially impacting the quality of audits due to a shortened period of peak efficiency.
- 2. Cost Implications for New Mexico Governments:** Changing auditors more frequently could lead to increased costs for entities, particularly smaller ones, due to the initial higher investment needed when a new auditor takes over to understand the operations and its specific challenges. These costs may not be just financial but also in terms of time and resources devoted to onboarding new auditors.
- 3. Audit Quality and Continuity:** A shorter rotation period could impact the continuity and quality of audits. Long-term relationships, underpinned by a deep understanding of the government's operations and its nuances, can enhance the quality of the audit through insights gained over time. Frequent changes might disrupt this continuity, potentially affecting audit quality.
- 4. Market Concentration Concerns:** A shorter rotation period could unintentionally exacerbate market concentration issues in the New Mexico audit profession, as entities might gravitate towards larger audit firms perceived to be more capable of managing frequent transitions, potentially disadvantaging smaller audit firms.



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5. **Increase in Late Audits:** As the challenges discussed above amass, we believe that this change to the Audit Rule will create an unintended whirlwind of late audits. With late audits – taxpayers, legislators, funders, and stakeholders will lose faith in various New Mexico government’s transparency and accountability.

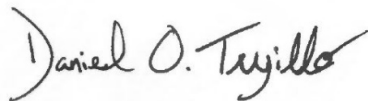
6. **Undue Burden of More Frequent Procurement:** New Mexico procurement laws allow multi-term contracts up to four (4) years (*New Mexico Statutes 13-1-150. Multi-term contracts; specified period*). Under the current eight (8) year rotation rule, governments can do two-four years contracts with their auditors, which commonly occurs. If the rotation is changed to six (6) years, the entity will have to do more frequent procurements which can be demanding for smaller government entities with less resources. It also would require the IPAs to bid on contracts more frequently which only one can win- as we know they are not compensated for the time and effort put in to that endeavor, only if they are awarded the contract.

Instead of decreasing the mandatory audit rotation timeframe, we would suggest exploring additional mechanisms to enhance audit quality and integrity, such as increased oversight, professional development, and best practice sharing, which could complement the rotation policy without necessitating a shorter rotation period.

In conclusion, we would strongly advise against the change to move the audit rotation from eight (8) years to six (6) years. From our experience when Former Auditor Keller moved the audit rotation to six (6) years, we experienced many unintended consequences it caused as outlined in this letter. Let us learn from what hasn’t worked for previous State Auditors and commit to the eight (8) rotation which has produced the best results for New Mexico government’s accountability and transparency.

Thank you for considering our perspective on this important issue. We look forward to the opportunity to discuss this further.

Very truly yours,



Daniel O. Trujillo, CPA, CFE, CGFM, CGMA
Managing Partner