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

During our review of the proposed 2024 Audit Rule, it was noted that the State Auditor is proposing in Section 2.2.2.8(F)(3) to lower the required auditor rotation rule from eight (8) to six (6) years. Lea County has reviewed numerous studies and reports on the benefits and drawbacks associated with required auditor rotation. Our findings are as follows:

Lower Quality Audits - Numerous studies show that more frequent audit rotation generally results in lower quality audits. In his study on frequent auditor switching, Ryan Decker found that "mandated auditor rotation, resulting in more auditor switching, may decrease audit quality and the efficiency of audits by delaying audit opinions" (Decker, 2021). Delays in completing audits could cause many entities to submit late audits resulting in unintended audit findings. The GAO believes that "mandatory audit firm rotation may not be the most efficient way to strengthen auditor independence and improve audit quality" (GAO - Report to the Senate Committee on Banking, November 2003). Some of the concerns noted in most studies was the lack of new auditor familiarity with the client's business and the potential for audit failure during the intial years.

Increased Audit Costs – Decker found in his study "that frequently switching between non-Big 4 auditors is accompanied by higher fees" (Decker, 2021). Numerous other studies reviewed agree that mandatory auditor switching does increase audit costs, but the how and why is subject to discussion. A major portion of the increase can be traced to the extra time and effort that the new auditor has to invest in gaining an understanding of the client. This also increases the cost to the client since they will have to spend more time and effort educating the new auditor and providing the documentation necessary to meet auditing standards.

The AICPA Code of Professional Conduct rule 0.300.050 Objectivity and Independence states that "a member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities" (Accountants, 2014). The rule also requires members to continually assess their client relationships in order to ensure the public that there are no conflicts of interest. In effect, the required adherence to this rule provides the assurance that auditors are maintaining objectivity in performing audits. Therefore, the belief that a longer term auditor client relationship becomes tainted is greatly reduced by the professional conduct of the auditor.

In conclusion, the change in auditor rotation from eight years (8) to six (years) will only result in higher fees and a potential decrease in audit quality. It also has the potential to cause chaos in the first year with many local governments needing to change auditors. Partners with two separate firms have indicated that they will have to replace anywhere from 10-14 audit clients for FY 24. With the number of audit firms willing to do governmental audits decreasing, the potential for serious issues in audit performance and delivery will be the result.

Respectfully submitted,

Chip Low, CPA CGMA
Lea County Finance Director

References

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Decker, R. (2021). *Retain or Rotate: Outcomes of Frequent Auditor Switching.* University of Arkansas, Fayetteville: Accounting Undergraduate Honors Thesis Retrieved from https://scholarworks.uark.edu/acctuht/47.

GAO - Report to the Senate Committee on Banking, H. a. (November 2003). *Public Accounting Firms - Required Study on the Potential Effects of Mandatory Audit Firm Rotation GAO-04-216.*