STEVE WESTLY
California State Controller

January 29, 2004

To: Certified Public Accountants Performing Audits of K-12 Local Educational Agencies, Joint Powers Entities, and County and District Superintendents

Subject: Auditor Rotation Requirements for Annual Audits of Local Educational Agencies

Assembly Bill (AB) 2834 added new *Education Code* provisions regarding annual audits of Local Educational Agencies (LEAs). The new law makes it unlawful for an accounting firm to provide audit services to an LEA for more than six consecutive years.

Education Code Section 41020(f)(2) states:

> Commencing with the 2003-04 fiscal year and except as provided in subdivision (d) of Section 41320.1, it is unlawful for a public accounting firm to provide audit services to a local educational agency if the lead audit partner, or coordinating audit partner, having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local educational agency in each of the six previous fiscal years. The Education Audits Appeal Panel may waive this requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.

Education Code Section 41020(f)(3) states:

> It is the intent of the Legislature that, notwithstanding paragraph (2) of this subdivision, the rotation within public accounting firms conform to provisions of the federal Sarbanes-Oxley Act of 2002 (P.L. 107-204; 15 U.S.C. Sec. 7201, et seq.), and upon release of the report required by the act of the Comptroller General of the United States addressing the mandatory rotation of registered public accounting firms, the Legislature intends to reconsider the provisions of paragraph (2). . . .

The 2003-04 fiscal year is the base year for determining whether a rotation of independent auditors should be implemented. Therefore, if the same audit partners or accounting firm was involved in the LEA's audit in the previous six years, a different accounting firm and/or audit partners must be used in the subsequent fiscal year, unless there is an exclusion or exception. Further, if an LEA has an existing contract under the above scenario, the LEA must cancel the contract and hire a different accounting firm for fiscal year 2003-04 or seek a waiver from the Education Audit Appeals Panel.

This letter is available via the Internet on the SCO homepage at http://www.sco.ca.gov.

Should you have any questions or need additional information, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-4846.

Sincerely,

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