



## ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

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August 31, 2006

# REGULATORY ALERT EA-06-01

## “Escrow Agent Audit Guidelines”

### Purpose

To establish guidelines relative to the annual audits of escrow agents required by A.R.S. § 6-832(A).

### Policy

An escrow agent shall be subject to a fiscal year-end annual audit by an independent certified public accountant. This audit requirement subjects the accounting policies, procedures, and records and the internal control of each licensed escrow agent to periodic critical review and evaluation in accordance with generally accepted auditing standards. The audit’s scope must be sufficient to enable the accountant to express an opinion on the escrow agent’s financial statements as to their presentation in accordance with Generally Accepted Accounting Principles (“GAAP”).

### General Requirements

An escrow agent’s audit must be made in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants (“AICPA”). These standards and their application are described in various AICPA publications.

The audit shall incorporate all procedures necessary to satisfy the accountant regarding compliance with laws and rules affecting an escrow agent’s financial position or results of operations.

Nothing herein shall be construed to imply authority for omission of any procedure, which certified public accountants would ordinarily employ in the course of an audit.

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### **Review of the System of Internal Control**

It is the accountant's responsibility to review and evaluate the adequacy of the escrow agent's system of internal control in establishing the scope of his/her audit tests. Weaknesses in internal control should be appropriately identified and considered in determining such scope.

Along with the audit of the financial statements, the accountant shall issue a report on reportable conditions. A reportable condition is defined in Statement on Auditing Standard No. 60 as:

A significant deficiency in the design or operation of the internal control structure that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The deficiency may involve aspects of the control environment, accounting system, or control procedures.

### **Report of Audit**

The report must conform generally to accepted standards of reporting and any opinion on the audited financial statements must be expressed in the report in accordance with generally accepted auditing standards. Any modifying phrases in the report's opinion paragraph are to be considered as qualifying the opinion in some manner. If other than an unqualified opinion is given, the report shall give a clear explanation of the reasons for the qualification and the effect on the financial position and results of operations.

The report of audit furnished to the Department in satisfaction of this audit requirement shall specifically make reference to any other reports, whether on internal control or other matters, which the accountant has submitted on the escrow agent's operations.

### **Financial Statements**

Comparative financial statements will be presented to include a balance sheet, statement of operations, statement of changes in equity and statement of cash flows. Other statements, as required by the AICPA, must also be included.

### **Filing of Audit Report**

Escrow agents are required to file one copy of each report of audit with the Department within 120 days after the end of the escrow agent's fiscal year. The term "audit report" refers to both the audit report on the licensee's financial statements and notes thereto; to the report on reportable conditions; and to any other special or supplemental reports related to the audit or the report thereon. **If the accountant finds that audit completion and issuance of the report requires a period in excess of 120 calendar days from the end of the licensee's fiscal year, then the licensee should request in writing an extension of time from the Department and provide the reasons for such delay.** Unwarranted delay in completion of an audit or the report thereon may result in administrative action against the licensee.

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**Other Requirements**

A schedule of all escrow, account servicing, and subdivision trust activities of the escrow agent shall be included with the financial statements. Such schedules shall be subject to the same auditing requirements applicable to the business of the escrow agent regardless of materiality. The schedule shall include at least the following information with regards to the reconciliation of the fiduciary accounts:

1. Name of the depository institution and its location.
2. Applicable account number(s).
3. Account title(s).
4. Account balances.
5. Trust/escrow/account servicing liability balances.

**A.R.S. § 6-816. Fees**

A. Each application for a new license or a renewal license shall be accompanied by the fee prescribed in section § 6-126.

B. For each day a report required by section § 6-832 is not received by the department, a licensee shall pay a fee of twenty-five dollars. The superintendent may excuse the fee for good cause if the cause is presented before the due date of the report.

**A.R.S. § 6-832. Annual audit; report**

A. The records of each escrow agent shall be audited at least once each fiscal year by a certified public accountant. The audit shall include an audit of the escrow, account servicing and subdivision trust activities of the escrow agent and shall follow generally accepted accounting principles. A copy of the audit report shall be filed with the superintendent not more than one hundred twenty days after the end of the escrow agent's fiscal year. The audit requirement may be satisfied by filing a copy of the audit report, which is prepared by a certified public accountant, of the parent of the escrow agent including an audit of the escrow, account servicing and subdivision trust activities of the escrow agent within the prescribed time period. The superintendent may extend the time period in this subsection up to ninety days for good cause shown.

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