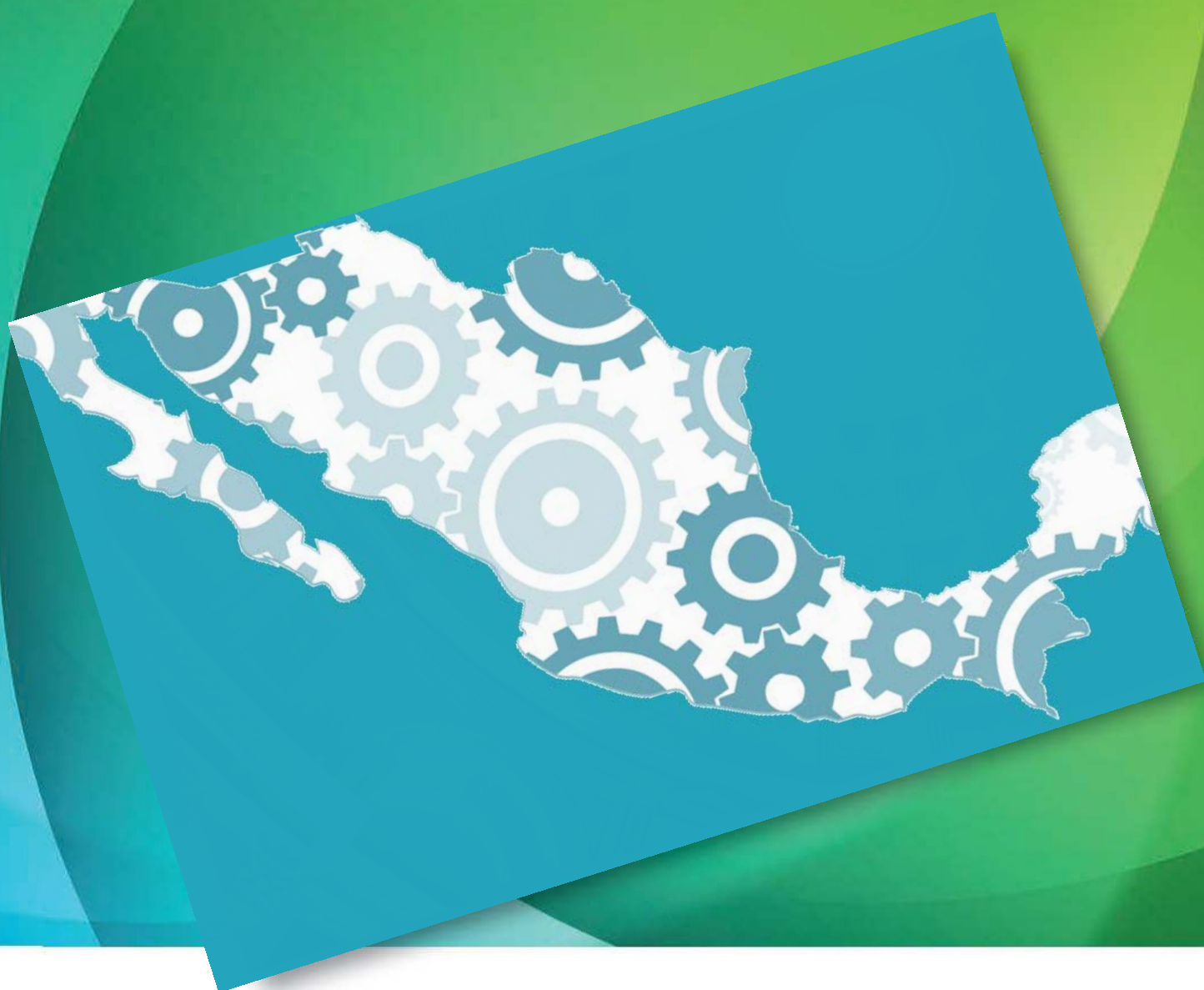


MEXICO'S NATIONAL AUDITING SYSTEM

STRENGTHENING ACCOUNTABILITY AND INTEGRITY

*Preliminary findings for the XXV OLACEFS General Assembly
23-27 November 2015
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OECD Public Governance Reviews

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MEXICO'S NATIONAL AUDITING SYSTEM: STRENGTHENING ACCOUNTABILITY AND INTEGRITY

INTRODUCTION

In May of 2015, the federal legislature of Mexico passed a series of significant governance reforms to enhance public sector accountability, transparency and integrity. These measures, which in some cases involved reforms to the country's Constitution, re-drew the national institutional map to advance the principles in these areas through the creation of the National Anti-Corruption System (Sistema Nacional Anticorrupción, or SNA) and the National Transparency System (Sistema Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales, or SNT). In addition, as part of the SNA, the reform will provide a new legislative foundation for the National Auditing System (Sistema Nacional de Fiscalización, or SNF) which had existed previously since 2010 as a voluntary coordination mechanism between internal and external audit institutions across levels of government. With these constitutional reforms now complete, and additional secondary legislation planned for 2016, Mexico will soon shift to the difficult task of refining and implementing the systems and demonstrating real impact to citizens.

The new reforms place Mexico's Supreme Audit Institution (SAI), the Superior Audit Office (Auditoría Superior de la Federación, or ASF), at the forefront of these initiatives, particularly the SNF, greatly increasing the SAI's visibility as an institution and potential impact. This is a pivotal moment for the mandate of the ASF, which brings both opportunities for strengthening governance and audit functions, as well as heightened responsibilities to meet the expectations of all three systems. Moreover, the success of the reform and the SNF as a whole will require effective implementation by other critical actors within the SNF. This includes the Ministry of the Public Administration (Secretaría de Función Pública, or SFP), which is the federal entity responsible for internal control, as well as audit entities of states and municipalities, where legal frameworks, skills, resources, and needs are diverse.

It is against this backdrop that the OECD began a review with the ASF to share knowledge, leading practices, and comparative insights. The purpose of the review is to identify strengths and challenges, and apply the OECD's international perspective, to aid the SNF and ASF in advancing Mexico's secondary legislation for implementing reforms. Likewise, leading practices from the implementation of SNF are of interest to the international community that faces similar challenges or is embarking on similar reform efforts.

This paper presents preliminary findings from an ongoing review, based on interviews with key stakeholders in the SNF, responses of three states to a questionnaire (Coahuila, Puebla, and Querétaro), inputs from experts and peer review countries (Brazil, Germany, the Netherlands, the United States), and a review of relevant evidence on leading practices and standards. The report has yet to undergo the full consultation process with SNF and review by stakeholders. The findings presented are not exhaustive and are subject to change before the final publication, which is planned for the spring of 2016.

BACKGROUND

Recent constitutional and national reforms envision three systems for advancing good governance in Mexico. These systems place the ASF at the forefront of the country’s efforts for strengthening accountability, transparency and integrity in the public sector.

The ASF is among the leading institutions of the SNA and is a member of its Coordination Committee. According to the new constitutional text, the SNA is for all the authorities of any governmental order dealing with corruption and, most notably, “with the auditing and the control of public resources” (Article 113 of the Mexican Constitution). The constitutional reform that created the SNA became effective in May 2015, with the approval of the key piece of secondary legislation (Ley General del Sistema Nacional Anti-Corrupción) required of the Congress by spring of 2016. This law will create the legal foundation for the SNF.

Since 2010, the SNF has existed as a voluntary coordination mechanism between internal and external audit institutions across levels of government. Its purpose was and continues to be to provide structure to the principles and activities that would support effective co-ordination among governmental audit entities of Mexico, as well as the systematic, comprehensive approach to auditing of public resources. In order to address the expanding and evolving role of the SNF during the implementation phase of the constitutional reform, in July 2015, the SNF established its operative framework (“Bases Operativas para el Funcionamiento del Sistema Nacional de Fiscalización”). Table 1 summarises the roles of key actors in the SNF.

Table 1. Overview of the SNF and its Stakeholders

Institution	Description
Superior Audit Office (Auditoría Superior de la Federación, or ASF)	According to the Mexican Constitution, the ASF is “organically dependent” from the Chamber of Deputies of Mexico. The Constitution grants the ASF organisational, functional and management autonomy, even though it remains in a relationship of dependency with the Chamber of Deputies. As a consequence, the ASF is neither a constitutional power nor an independent constitutional organ but rather a “constitutionally-relevant organ” (UNAM, 2007; Ackerman, 2006).
Ministry of Public Administration (Secretaría de Función Pública, or SFP)	The SFP is a federal Executive entity in charge of organising and co-ordinating the governmental control and evaluation system through the internal control bodies established within each line ministry. For instance, the SFP defines the norms for the federal public administration’s control procedures, and establishes the basis for audits in all the agencies and entities of the federal administration. It also monitors federal public servants to ensure they adhere to the law when exercising their functions, and penalizes those who fail to do so. The SFP has other responsibilities, such as promoting compliance with control processes and determining procurement policy.
State Audit Institutions (<i>Entidades Fiscalizadoras Superiores Locales</i> , or EFS)	Mexico is a federal system made out of 31 states and a Federal District, which are all granted constitutional recognition. On the one hand, the Federation exercises the supreme power of Mexico. On the other hand, states and the federal district have their own independent governments, budgets, and auditing

State Ministries responsible for Internal Controls and Audit

Municipal controllers and internal control units of constitutionally independent entities

systems managed by the 32 EFS. The 32 EFS, together with the ASF, form the National Association of State Audit Institutions for external audit entities (Asociación Nacional de Organismos de Fiscalización Superior y Control Gubernamental, or ASOFIS). Internal control agencies (Contralorias) in each State government are responsible for internal control and audit (as the SFP is at federal level). The co-ordination mechanism for these institutions is the National Permanent Commission of State Controllers (Comisión Permanente de Contralores Estados-Federación, or CPPE-F) which is chaired by the SFP. The internal control and audit offices of public sector organisations recognised in the Constitution yet outside of the federal government administration and the Executive branch may also participate in the System.

In October 2012, stakeholders of the SNF signed an agreement laying down the “General Basis for the Development of a National Auditing System”, and approved a strategic plan, which spans from 2013 to 2017. The plan outlined a series of specific objectives and actions in pursuit of the strategic goals that remain relevant today following recent reforms. Among other factors, the goals recognize the important of legal frameworks, capacity, and coordination to improve accountability, transparency and integrity. The goals include:

- common professional rules at the national level;
- improve the legal framework related to auditing;
- capacity building;
- more impact of the work of the auditing institutions in the fight against corruption;
- strengthening the role of auditing within the system of promotion;
- exchange of information and joint work; and
- determination and establishment of responsibilities for public officials (ASF, 2011).

In addition to the SNF, the ASF also features prominently in the new SNT. According to the new General Law on Transparency and Access to Information, the SNT is comprised of the National Institute on Transparency, Access to Public Information, and Data Protection, the ASF, the General National Archive, and the National Institute of Statistics and Geography. The SNT will contribute to, among other things, effective auditing and accounting. In addition, it establishes that the auditing results and reports will be published for any government entities that are subject to auditing by law; however, it also provides for the possibility to classify as “confidential” information that may “obstruct the verification, inspection and auditing activities related to implementation of laws, or affect the collection of taxes” (Article 113(VI) of the 2015 General Law on Transparency and Access to Information, or General Law on Transparency).

Secondary legislation is being considered and is scheduled for completion in May 2016

As mentioned, Congress must approve the General Law for the National Anti-Corruption System by May 2016. To date, there have been two proposals, including one proposed by the National Action Party (PAN) and the other by the Democratic Revolution Party (PRD). The former proposal does not explicitly mention the SNF, but it stipulates a new role for the ASF to be one of the authorities in charge of investigating acts of corruption, and discovering corruption through audits (together with private referrals and the judicial authorities' own initiative).

The PRD proposal mentions the SNF and establishes that the SNA would promote, in coordination with the SNF, the necessary actions to guarantee the proper use of public resources as well the accomplishment of the other objectives of the law. In addition, the SNA would have to cooperate with the SNF in order to fulfil its goals. According to the proposal, the SNF and the ASF could play a role in conducting investigations and auditing the assets of public officials, which would be disclosed to the Public Registry of Interests within the Citizen Committee. It is hard to predict, and still controversial, how these proposals would shape in practice the SNF and define the right equilibrium regarding ASF's ability to become effective anticorruption agents, without affecting its main contribution to public governance and accountability. However, the proposal addresses crucial issues such as co-ordination among authorities and citizens' engagement.

Importantly, the constitutional reform prescribes that states replicate the SNA's institutional framework. The states' promptness in adopting the necessary legal changes will be critical for the effective implementation of the new procedures outlined in the secondary legislation. According to the law, these reforms will have to be enacted by state legislatures within six months from the adoption of the legislation at the local level.

PRELIMINARY FINDINGS

The success of the ASF's strategic planning in the coming years is dependent on its ability to leverage its comparative advantage in the SNF, while balancing competing priorities of the three systems to avoid overextension.

Playing to its institutional strengths and maintaining operational agility will be critical for the ASF to effectively balance and respond to its new responsibilities going forward.

In the wake of recent reforms, the ASF's mandate is potentially set to expand significantly. However, the ongoing development of the secondary legislation provides an opportunity for the ASF to balance its responsibilities within a manageable scope and leverage its comparative strengths vis-à-vis other actors in the SNA in order to avoid overextension. Without a budget increase or identification of efficiencies, taking on additional responsibilities may prove to be unsustainable. The risk of overextension stems from the following:

- ASF will be amongst leading institutions in three Systems (the Coordination Committee, the SNF Comité Rector and the SNT)
- the possibility for the ASF to audit entities in relation to the on-going fiscal year (so-called "real-time" audits), and substantially, to audit revenue sharing (i.e. *participaciones*) given to states as well as the revenues made by subnational entities through loans guaranteed by the central government;
- the mandate to investigate and substantiate, together with the internal control entities, the serious administrative offences cases, which are then decided and eventually sanctioned by the new Administrative Tribunal (Tribunal Federal de Justicia Administrativa), which is responsible for imposing sanctions; and
- the obligation to report its activity to the Congress three times per year (June, October, and February), including the General Executive Report to be submitted for consideration to the plenary of the congress. In addition, twice per year (the first day of May and November), the ASF will also report to the Congress about its follow-up activities, such as the amount of compensations paid by audited entities as a consequence of the ASF's recommendations, as well as the criminal referrals presented and the proceedings initiated in front of the Administrative Tribunal.

To meet the new demands related to ASF's audit work, it is of paramount importance that ASF consider its strategic competitive advantages. That is, it should consider its strengths and weaknesses vis-à-vis other actors responsible for the anti-corruption, accountability and transparency agendas. Strengths to consider could include its independence, its reputation for being trustworthy, and ASF's unique bird's eye view of the public sector and governance issues. Potential weaknesses could include limitations with regards to the type of audits conducted (e.g. emphasis on financial and compliance audits over performance audits), limited capacity and experience for conducting investigations.

Figure 1. ASF Audit Portfolio 2014

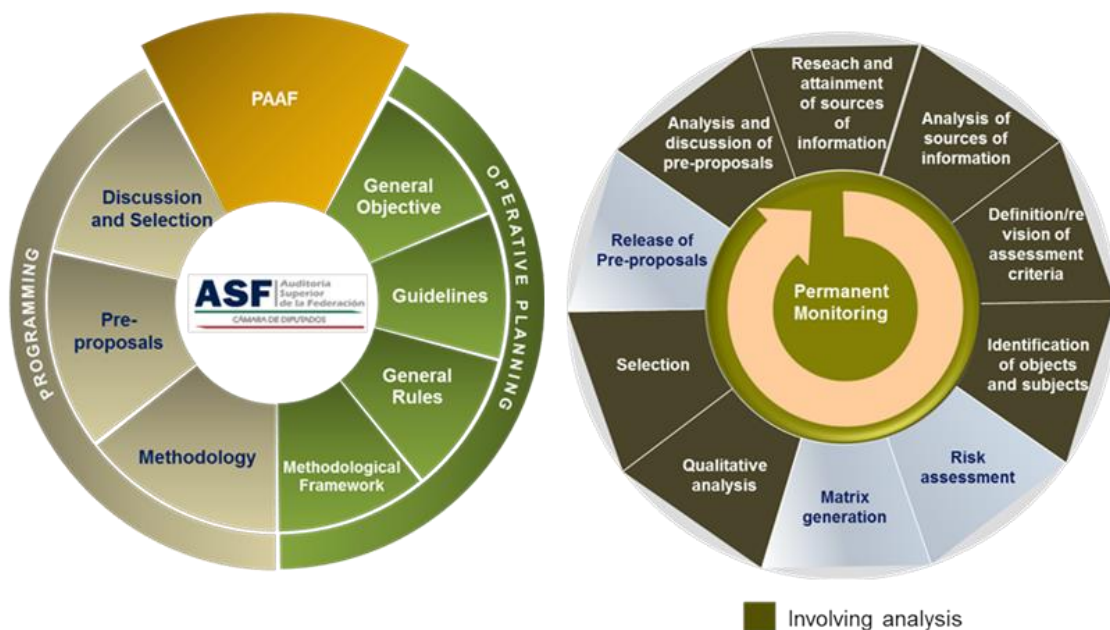
Performance audits	Financial focus on performance	with on Compliance	Financial and Investments	Forensic Audits	Total
149	748	608	133	10	1648

Source: Annual Audit Programme for 2014 Year-end Report (Programa Anual de Auditorías para la Fiscalización Superior de la Cuenta Pública, 2014)

It is also important that, once its role is defined, the ASF demonstrate effective operational agility refers to the ability of the ASF to align resources to changing priorities and to promote innovative ways to maximise performance (OECD, 2014). Maintaining the operational agility of the ASF in an evolving environment means adapting resources to fulfil its new mandate and taking innovative approaches in light of constraints. It highlights the need for ASF to strategically consider opportunities to build its internal capacity in preparation for effectively responding to its new mandate.

The ASF has processes and procedures in place to improve its operational agility. For instance, the audit planning of the ASF uses its “Annual Programme of Audits for the Public Account Supreme Auditing (PAAF) to define the audit subjects and types of audit to be conducted for the duration of one year. It takes into account a number of operational factors, such as the ASFs technical and managerial autonomy, the relative importance of audited entities, the variation in the amount allocated in relation to the previous public account, audit history, and complaint or requests from the Chamber of Deputies. It also involves consideration of available resources, types of audits to be conducted, and the experience of staff. Moreover, the approach employs a risk assessment to identify and select audit priorities, which includes quantitative and qualitative methodologies for scoring risks and making risk-based comparison of account for prioritizing work.

Figure 2. The ASF's the Public Account Supreme Auditing (PAAF) Planning Cycle and Basic Programming Methodology



Source: provided by ASF (2015).

While the example of ASF's PAAF demonstrates positive steps toward improved operational agility, further strategic considerations are needed to ensure the ASF can effectively fulfil both existing and newly-mandated responsibilities. Indeed, auditors that OECD interviewed expressed concern about the already high-volume of work, and the ASF risks overextension without further defining its role across the three systems. As discussed below, shaping its role based on its comparative advantage can help the ASF to identify strategic areas where it could have the greatest impact and effectively use its limited resources.

Legislative proposals for the ASF to contribute to criminal investigations rather than provide investigative support through a more traditional audit role, could unduly strain ASF's resources and require it to take on a role in which it lacks a comparative advantage. It would also create duplication within the NACS and risk blurring responsibilities and accountability for results within the System.

The comparative advantage of the AFS vis-à-vis other actors within the SNF lies first and foremost in its audit function. ASF is the natural leader within the SNF, a position that is reinforced by its mandate to promote integrity and accountability through auditing of federal expenditures. As noted, the constitutional reform calls upon the ASF to fulfil additional audit duties as part of its traditional oversight role, such as increased audits of federal account as well as revenue sharing (*participaciones*).

In addition to the new audit activities required of ASF (e.g. reporting on public account every four months instead of annually), ASF will have to investigate and substantiate serious administrative cases. Having done so, ASF will also need to promote appropriate responses before the Administrative Tribunal or the Special Anticorruption Prosecutor Office, which will make determinations on sanctions, if any.

The expanded investigative role of the ASF, as currently defined, suggests the need for greater clarity and strategic thinking to ensure that the ASF is not overburdened by this role. In particular, two main concerns arise as a result of this expanded mandate:

- *The objectives, scope and activities related to ASF's role in conducting investigations would need to be addressed in the secondary law. Moreover, Investigations can be resource-intensive and can require specialized knowledge and skills that ASF would need to develop for it to be effective in this role.* In Mexico, auditors are skilled in carrying out compliance and financial audits, and to some extent performance audits, in accordance with audit criteria and guidelines. However, the ASF does not have experience in conducting investigations, and has limited experience in conducting forensic audits. The substantiation of criminal cases follows different evidentiary standards, and requires specific experience and expertise in investigative processes to ensure admissibility of information in a court of law.
- *The Special Prosecutor on Anti-Corruption may also have responsibilities to investigate similar cases as the ASF would.* Serious cases of corruption are also considered criminal offences which are now to be the jurisdiction of the newly created Special Prosecutor on Anti-corruption. Therefore, delineation between the responsibilities of the ASF and Special Prosecutor would help to avoid overlap and duplication, so that each institution is performing the duties where it has the most comparative advantage.

As secondary legislation is being developed, a key consideration will focus on how the ASF further defines its investigative role and how this is incorporated into its strategic plan, which spans until 2017 and will soon need to be refreshed. A forensic audit role, which could support investigations, is more in line with the ASF's comparative advantage, although still resource-intensive

to develop. ASF officials who participated in the review noted that investigations might be conceived as a parallel track to common auditing work, so that they could enrich and strengthen the results of the audits in terms of the evidence that support the observations. However, beyond forensic auditing, conducting criminal investigations and building a cadre of investigators may not only prove burdensome for the ASF, but duplicative of other actors charged with investigating corruption. Box 1 provides further discussion on the role of SAIs in investigations.

Box 1. The Role of SAIs in Criminal Investigations

In general, the comparative advantage that an SAI has vis-à-vis other actors in a system to promote accountability and combat corruption is not to lead criminal investigations, but rather to provide investigative support and identify systemic weaknesses.

Although some SAIs have investigative units, in most cases the SAI does not lead an investigation, since it does not possess adequate knowledge or resources to do so. The investigative authorities may even ask the SAI to stop carrying out audit work in the area concerned so as not to jeopardise the findings of the investigation team. However, the SAI may also be asked to cooperate and even work alongside the investigative team. (INTOSAI, 2013a)

Outside of Mexico, however, there are various examples of SAIs that have effectively taken on an investigative **support** role through forensic auditing, including the U.S. Government Accountability Office. In this capacity, SAIs can leverage their comparative advantage in auditing systemic weaknesses of internal control systems, and when the occasion arises, refer potential cases of fraud or corruption to the relevant law enforcement or prosecutorial bodies. The focus of the SAI then becomes fraud and corruption risks, as opposed to individual cases. Moreover, the investigative support role of the SAI is aligned with best practices for combating fraud and corruption, which emphasizes prevention over detection, as the latter can be costly and result in a “pay-and-chase” model.

Source: INTOSAI, GAO.

The ASF’s comparative advantage, and greatest contribution for the SNF as a whole, stems from its independent position and capacity for identifying as well as reporting on systemic weaknesses in the government. Moreover, auditors have familiarity with public accounts that no other governmental actor has, including the Special Prosecutor on Anti-Corruption. Expending resources to investigate individual cases of fraud and corruption leverages this comparative advantage insofar as the ASF invests the additional resources to identify and report on vulnerabilities in the system, such as internal control weaknesses, that the cases represent. However, without an increase in budgetary resources, trade-offs to fulfil any investigative role are likely. In contemplating the trade-offs, a strategic approach that emphasizes the ASF’s core strengths and does not compromise its traditional auditing role will be of critical importance for the success of the SNF.

ASF’s comparative advantage in the he National Transparency System (SNT) is clear given international experiences from other OECD member and partner countries. But strategically clarifying this important role will be critical for it to make effective contributions to transparency.

The General Law on Transparency creates the SNT. Mexico’s National Institute for Transparency and Access to Information (INAI) will lead the SNT, and the ASF, the National Archives Service, and the National Statistics Office will be members of the system. The system will contribute to, among other things, “an effective auditing and accounting” (Article 29). With regards to auditing obligations,

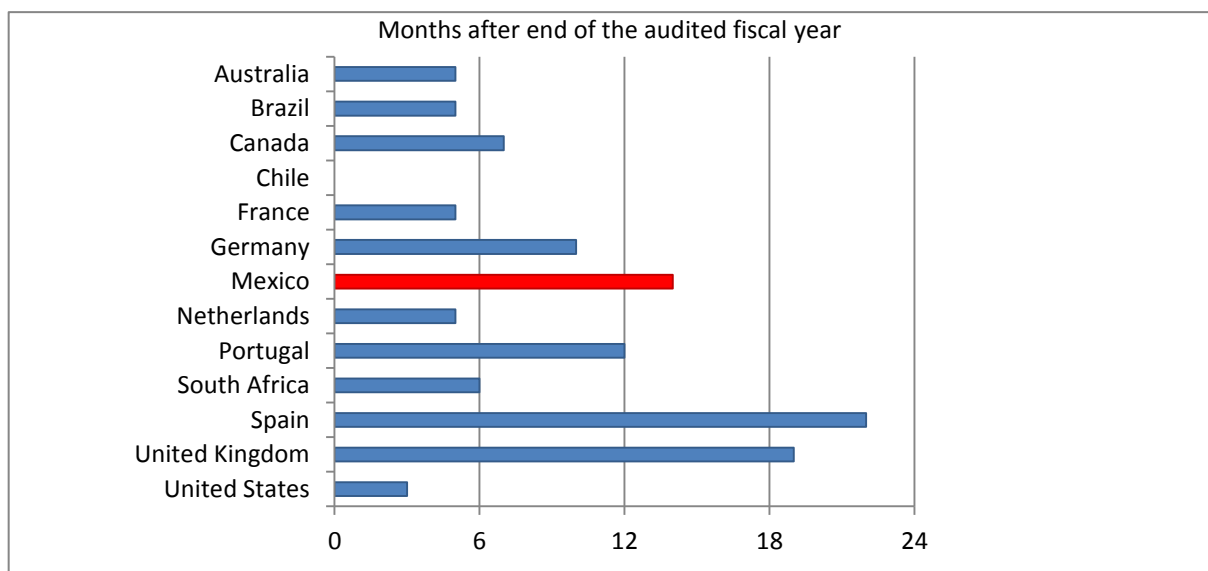
the law also states that every entity subject to it will be obliged to publish the auditing report results or the corresponding explanation (Article 70). The law sets out 50 obligations for proactive transparency of certain information for states, and gives INAI and other relevant entities sanction powers for noncompliance. The law also creates a National Transparency Platform (Plataforma Nacional de Transparencia) that will allow users to request information.

A detailed review of the SNT is beyond the scope of this review, but what is notable for purposes of the review is the extent to which ASF will play a role in the system and strategic implications. The ASF holds a unique position in government in that it has both the mandate to collect information from public agencies at all levels of government, as well as the expertise to analyse and report on it. Given this, ASF has a comparative advantage for promoting transparency and can play a significant role in advancing the goals of the SNT. However, involvement in the SNT signifies additional duties and outlays of resources for the ASF. In an evolving environment, effective strategic planning requires a holistic approach towards defining responsibilities and allocating resources that accounts for the ASF's roles across multiple systems.

The reforms will help to improve the timeliness and impact of the ASF's work, but the ASF's impact also depends on its ability to ensure the quality of its products in light of a growing audit portfolio.

As one of its primary duties, ASF audits the year-end account of individual government entities, as well as the consolidated government year-end account. The impact of this work hinges in part on the timelines of reporting on audit results. ASF's audit work is currently conducted entirely ex post, based on one fiscal year. Moreover, the year-end audit report is submitted to the Congress 14 months after the end of the fiscal year. This is more than twice the standard set out in OECD's best practices for budget transparency, which notes the year-end report, as the government's key accountability document, should be released within six months of the end of the fiscal year (OECD, 2002). As a result, the ASF's audit findings are not available to inform budget deliberations for the following fiscal year, lessening its impact on improved financial performance and more transparent allocation processes. Figure 2 below provides a comparison between Mexico and other countries on the completion of the audit of the consolidated year-end government report.

Figure 3: Completion of the audit of the consolidated year-end government report in Mexico and selected countries



Source: OECD (2013), *Brazil's Supreme Audit Institution: The Audit of the Consolidated Year-end Government Report*, OECD Public Governance Reviews, OECD Publishing, Paris, DOI: <http://dx.doi.org/10.1787/9789264188112-en>.

Notes: n.a. = Not applicable.

Chile: No consolidated year-end government report.

As noted, the recent reform allows ASF to audit in “real-time” and requires it to produce three audit reports, which will help to address timeliness issues that have historically limited ASF’s impact. Per the constitutional reform, ASF will be required to deliver two individual audit reports in 4-month intervals to the Chamber of Deputies, before its year-end report on the public account. The legal impetus for additional reporting is essential for improving timeliness and impact of the ASF, and is a critical step forward for the SNF. More frequent reporting will also help to align the ASF with international standards, which call for audit reports to be available promptly in order to maximize utility for consumers of the report, particularly those who must take actions in response to findings (INTOSAI, 2013b).

The extent to which increased reporting improves ASF’s impact also relies on the quality of its audits. ASF appears to adhere to many international best practices and standards for quality assurance. In 2008, a peer review of the ASF by the SAIs of Puerto Rico, the United Kingdom, and the United States found that the quality assurance system of ASF’s Performance Audit Office (Auditoría Especial de Desempeño) had processes for monitoring the quality of audit work and goes beyond international standards (Puerto Rico Office of the Comptroller, U.K. National Audit Office, U.S. Government Accountability, 2008). Moreover, in 2009, ASF strengthened its quality control and assurance system by further aligning its practices with international standards and best practices, which included a recertification of its processes according to the International Organisation of Standardization (ISO 9001:2000).

While these are positive examples related to one type of audit, the expanded audit portfolio of the ASF in a new environment will place unique demands on the structure and procedures of its quality control system. To what extent is the ASF organized to meet these demands? One perspective to

consider is the ASF's structure. ASF currently is organised around seven divisions, including financial/compliance audit, performance audit, information technology audit and internal control, audit of federalised expenditures, the legal department, an administrative unit, and an information and communications technology unit. This organisational structure is built around functions (e.g. types of audit), as opposed to sectors (e.g. health, education, security, etc.).

Some SAIs have found that organising their operations in such a way creates silos, in which auditors working on the same audit subject, but on a different types of audits, may face difficulties to communicate effectively and detect cross-cutting issues. SAIs, such as those in Brazil and the United States, have broken down these siloes in favour of a sector-based approach. This also allows for expertise to be accumulated on specific audit subjects or audited institutions. Moreover, this can lead to more focused audit reports that are responsive to the varied needs of users, particularly the Congress, which has committees that specialize on various subjects. Box 2 offers a viewpoint from the Netherlands, which also had a dedicated system to help ensure the quality of its work.

Box 2. The Netherlands Court of Audits and its Three Quality Control Points

The Netherlands Court of Audits (NCA) uses an internal quality control system to conduct high quality audits that comply with the International Standards of Supreme Audit Institutions (ISSAI). The system includes “three control points” that occurs during the design, implementation, and completion phases of the audit. As detailed below, the final control point focuses on improving the quality and readability of the audit to help ensure that the findings are communicated effectively and will have an impact. NCA's three control points include the following:

1. The Court's Performance Audit Information Centre acts as a source of advance information for auditors. It assesses the definition of the audit problem and the audit questions, and advises auditors on how to perform the audit with maximum effectiveness and efficiency.
2. During the course of an audit, a team of fellow auditors advises on the technical and strategic quality of the audit. Specifically, these teams issue advisory reports to the directors of the Court's audit department during the course of audits.
3. Once an audit has been completed, the Quality Assurance and Control Division performs a quality assurance assessment. This involves assessing the clarity and readability of the draft audit report, as well as the validity, reliability, consistency and added value of the audit. Based on its findings, the Division makes suggestions to the Board for improvement in the audit.

Source: The Netherlands Court of Audit (2012), “Quality control”, in *2011 Annual Report Online*, http://www.courtfaudit.nl/english/2011_Annual_report/2011_Annual_report:17798/Audits/Quality_control

As demonstrated by the Netherlands example in the box above, the quality of audit reports is a function of quality assurance processes applied to the design and implementation of the audit itself, but also the readability and clarity of the report. INTOSAI's “Fundamental Principles of Public-Sector Auditing” notes “reports should be easy to understand, free from vagueness or ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context” (INTOSAI, 2013c).

In OECD's interviews, some SNF stakeholders, including civil society organisations, voiced concerns about a perceived low quality of ASF's audit reports. Interviewees of one civil society organisation said the low utility value of ASF's reports was, in their estimation, due to technical

language that was not easily readable for a broad audience. This example is not meant to be generalizable to all report, but it is one perspective that is notable given the evolving audit role of the ASF. As ASF prepares to produce more work, quality assurance not only as it relates the design and implementation of the audit, but the drafting of the report as well, will be of paramount importance for ensuring impact and relevancy.

Changes to the audit cycle and reporting times will help the ASF to have a greater impact, but lacklustre responsiveness to recommendations by the Congress and audited entities reduces the impact of the ASF's work.

The recent reform contains powers and obligations for the ASF to follow up on the results of audits and present them to the Congress. Moreover, audited entities will have to specify actions taken, if any, or justifications for not taking action in response to recommendations. In addition, ASF will have to submit a report to the Chamber of Deputies on the first of November each year that describes the status of its opinions and recommendations from single audits, as well as the amount recovered as a result of its audits. However, in interviews with the OECD, SNF stakeholders highlighted issues concerning low absorption of audit recommendations, particularly by the Congress. The following summarises the main issues identified during interviews with SNF stakeholders:

- Reporting lines – ASF reports to a standing evaluation committee in the Chamber of Deputies, which is the gateway to other committees. Communication between ASF and other relevant congressional committees concerning findings is done so in a more informal manner (meetings, presentations), potentially limiting the absorption and impact of ASF work in these key entities.
- Misconceptions or lack of understanding about the role of ASF within the Congress – Audit reports prepared by the SAI should be scrutinised by Parliament (OECD, 2002). However, according to SNF stakeholders, there appears to be a misconception and lack of understanding in the Congress about the purpose and benefits of the ASF. One factor that is likely to influence this is the high-level of turnover within Congress, which in turn places an additional burden on the ASF to routinely explain its added value.
- Timing – Interviews highlighted this as factors that reduce absorption of recommendations and audit findings. However, the ASF will now report to the Congress three times per year instead of once. This change in the audit cycle and reporting times will provide greater opportunity for the ASF's work to be more influential and taken into account in budget discussions. Box 3 provides illustrative examples of selected SAI's efforts to inform the Congress about its work.

Box 3. Examples of SAI's Congressional Outreach

Sweden

Every four years following the general election, new members are appointed to the Swedish Parliamentary Committees. To ensure that these new members better understand the work of the Swedish National Audit Office (SNAO) once the Committees are constituted, the SNAO invites representatives to visit the office. During these visits, the Auditors General and staff 1) provide an overview of the SNAO and its mission, and 2) describe the ongoing audit activities and planned audits which may fall within the visiting Committee's area of interest. The meeting format is relatively informal and encourages questions and discussions. As such, it is an opportunity for knowledge exchange and networking.

United Kingdom

The work of the U.K. National Audit office (NAO) informs the scrutiny of government by parliamentary select committees, particularly the Committee of Public Accounts, for whom the NAO provides a wide range of reports, briefings and other analysis to support their hearings into the value for money of public spending. The NAO also supports other parliamentary select committees on issues where it has expertise relevant to their inquiries. To inform these committees about its work, the NAO prepares departmental overview reports that summarise its work on each major department, and shares these with the relevant parliamentary select committees in advance of the annual reviews of government departments that they carry out. Departmental overviews provide an array of useful information for the committees about the NAO's work that is about the Executive department relevant to the committees' area of interest, including:

- a summary of their department's activity and performance over the past year, based primarily on published sources, including the department's own accounts and the work of the NAO.
- information on how the department is organised, where it spends its money, recent and planned changes to the department's spending and any major changes or developments in policies and how they were delivered.
- major developments that the department has planned for the coming year, such as major structural changes, new policies that will come into force, legislation that is going through Parliament, and any large contracts that have to be renegotiated.
- main findings of its most recent financial audit of the department's accounts that would be of interest to the committee; and
- a summary of key findings of any value-for-money, performance improvement or investigative work it carries out on the department over the last year and what the department has committed to do in response.

Source: EUROSAI (2014), *Sharing Good Practices among Supreme Audit Institutions*, EUROSAI Innovations: Volume II, http://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/strategic-plan/goal-team-1/Innovations-volume-II_Web.pdf.

In interviews, SNF stakeholders also highlighted the lack of responsiveness among audited entities to ASF's recommendations. Stakeholders noted this was particularly an issue with regards to performance audits and evaluations, but also for financial compliance work. According to international standards, SAIs have a role in monitoring audited entities' responses to issues raised in an audit report. "Follow-up focuses on whether the audited entity has adequately addressed the matters raised, including any wider implications. Insufficient or unsatisfactory action by the audited entity may call for a further report by the SAI" (INTOSAI, 2013c). There is a legal timeframe established for audited entities to respond to audits, and the ASF stays engaged through this duration. The number of months provided to audited entities remains to be seen, but lessons from other regional SAIs suggests that this time is often too limited for the audited entity to adequately respond. ASF officials who participated in the review noted that the secondary auditing law for the National Anticorruption System would incorporate a new scheme for following up on audit recommendations, which would reflect actions agreed on by the ASF and the audited entities when implementing recommendations.

The need for ASF to further strengthen its outreach with citizens and civil society was noted. While the ASF makes its reports and studies publically available online, their (current) timing was also noted as a barrier to engaging citizens, and it was noted the website could be made more user-friendly. Other States in Mexico have been proactive in this field, including the State Audit Institution of Puebla (Box 4).

Box 4. Transparency and citizen engagement in the State of Puebla

Supreme Audit Institutions have critical oversight responsibilities over the public sector, and contribute to the policy cycle through activities that provide insight and foresight. As such, they are critical actors to ensure safeguarding of taxpayer dollars and governments' accountability to citizens. Recent research shows that engagement with citizens and other external stakeholders can strengthen SAIs' capacities and effectiveness in holding governments to account, and mechanisms for engagement between SAIs and external stakeholders have multiplied in the last years (Effective Institutions Platform, 2014). In particular, two kinds of engagements are identified by the latter study: transparency mechanisms based on a one-way information-flow (e.g. disclosure of institutional information and audit reports) and participatory mechanisms involving two-way flows of information (e.g. complaint mechanisms and the engagement of experts they need to involve a greater number and diversity of societal stakeholders in their design).

The Supreme Audit Institution of the State of Puebla (Auditoría Superior del Estado de Puebla, or ASEP) has put in place a number of initiatives which aim to increase the engagement of citizens in its auditing activities and comply with the standards provided for by INTOSAI (2010b).

With regards to the transparency mechanisms, the ASEP has made public its strategy, which is contained in its strategic plan from 2012 to 2019 ("Plan Estratégico de la Auditoría Superior del Estado de Puebla 2012-2019"). The plan focuses on the effectiveness of 4 axes: auditing, legality and fight against corruption, institutional development, and relationship with institutions and citizens. Similarly, the ASEP has designed some initiatives to communicate information about its mandate, responsibilities and mission to a broader audience, such as:

- A **Guide for Citizens** ("Guía para la Ciudadanía. ¿Qué es y qué hace la Auditoría Puebla?") which illustrates the role and activities of the ASEP;
- A graphic and accessible report with the yearly results of the auditing activity ("**Informe de Resultados**");
- The publication of a magazine called "**Cuentas Claras: Revista de la Auditoría Superior del Estado de Puebla**". The latter biannual publication provides the public with information about the main initiatives and developments of the ASEP as well as the work of ASOFIS. According to its first issue, the magazine aims at enhancing legal certainty toward audited entities and communicating the population that auditing of common resources takes place in an organized, systematic and comprehensive way.

As for participatory mechanisms, the ASEP, like other state audit institutions, are undertaking some initiatives to engage citizens, including the following:

- The State of Puebla's Accountability Office (Secretaría de la Contraloría) has developed a programme called "**Poblanojitos 2.0**" which aims to involve children in social auditing (contraloría social) in relation to a programme granting tablets to pupils in the 5th grade;
- Playful and interactive tools have been developed by the ASEP to introduce children to both auditing and the ASEP ("Auditoría para niños");
- The ASEP organizes **photo competitions** on the values of accounting and on Puebla's culture ("Los Valores de la Rendición de Cuentas y la Cultura de Puebla"), which invites citizens to send photos concerning independence, impartiality, objectivity, integrity, legality and confidentiality;

The website of the ASEP (<http://www.auditoriapuebla.gob.mx/mecanismos-de-participacion-ciudadana>) informs citizens about their possibilities to file complaints or allegation for episodes of misuse of public resources. In particular, this can be done through a dedicated hotline ("Línea Directa de Atención Ciudadana"), through the website itself or in person. The website also explains the eligibility, the procedures and the ASEP's obligations in relation to such complaints.

The roles and responsibilities of the various actors within the National Auditing System (SNF) could be further clarified, with a view towards harmonising audit criteria and avoiding duplicative audits.

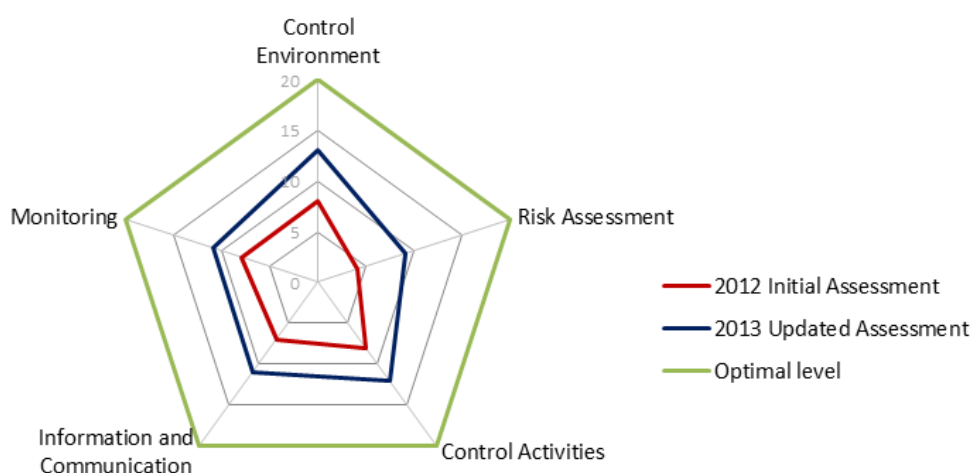
ASF and SFP use different frameworks for audits related to internal control and risk management

One principal goal of the SNF is to improve and harmonise audit standards and criteria across the different branches and levels of government. Priorities according to the SNF's strategy include aligning legislation, instituting common professional standards, applying best practices in audit methodologies, and adopting common frameworks for internal control and audit. The working groups noted above are responsible for these activities. However, divergences between frameworks used for auditing remain across institutions and, in some cases, gaps and fragmentation exist in terms of applying international good practice.

The SFP is the responsible government entity in Mexico for implementing effective internal control and audit standards across the federal government. The Unit for Control and Evaluation of Public Management (UCEGP) within SFP is responsible for ensuring that line ministries and agencies have internal control systems in place, and that the respective internal control bodies oversee their functioning.¹ The SFP requires ministries to conduct annual self-evaluations based on standards it created called, the Standard Model for Internal Control (Modelo Estándar de Control Interno, or MECI).² As such, initially in 2010, and later in 2012 and 2014, following a series of additional improvements, the SFP established standards on this front, and issued an accompanying manual for implementation. The SFP's detailed framework also varies somewhat from the ASF's own criteria as laid out in the Integrated Framework for Internal Control in the Public Sector (Marco Integrado de Control Interno en el Sector Público).

However, while both external audits and self-evaluations suggest progress on implementing existing standards (figure 4), these are neither fully aligned with international frameworks (COSO II) nor applied consistently across government. Both the MECI and Integrated models include the 5 critical elements of COSO II (Environment, Risk, Control Activities, Communication, evaluation and continuous improvement), yet within these categories the individual criteria (or principles) vary somewhat from COSO's framework. Divergences in standards between ASF and the SFP therefore were subsequently reflected at state and municipal levels, with differences arising in subnational legislation, and auditees reporting frustration in the application of different criteria each year.

Figure 4: Improvements in strengthening of internal control components in federal public institutions



Source: Adapted from ASF’s Study no. 1198 on monitoring Studies on Internal Control. The updated assessments are based on the additional evidence provided by the institutions.

The same duplication and incongruence can be found with regards to standards for risk management. In parallel to the MECI, the same 2014 SFP policy establishes requirements for risk management (Administración de Riesgos, or ARI), which requires organisations each year to produce the Work Programme on Risk Management (Programa de Trababajo de Administración de Riesgos, or PTAR). However, differences exist between this model and that of COSO’s for Enterprise Risk Management, the generally accepted standard internationally. The ASF has issued its own tool, the Manual del Sistema Automatizado para la Administración de Riesgos (SAAR), which is generally more in line with COSO. Once again, the divergences and duplication are translated at State and Municipal levels.

Strong internal control mechanisms which include risk management are not only positive for ensuring principles of integrity and effective resource control are in place, they also serve the purpose of contributing to fiscal sustainability over the longer term.

Box 5. The role of SAIs in promoting fiscal sustainability: the case of Querétaro

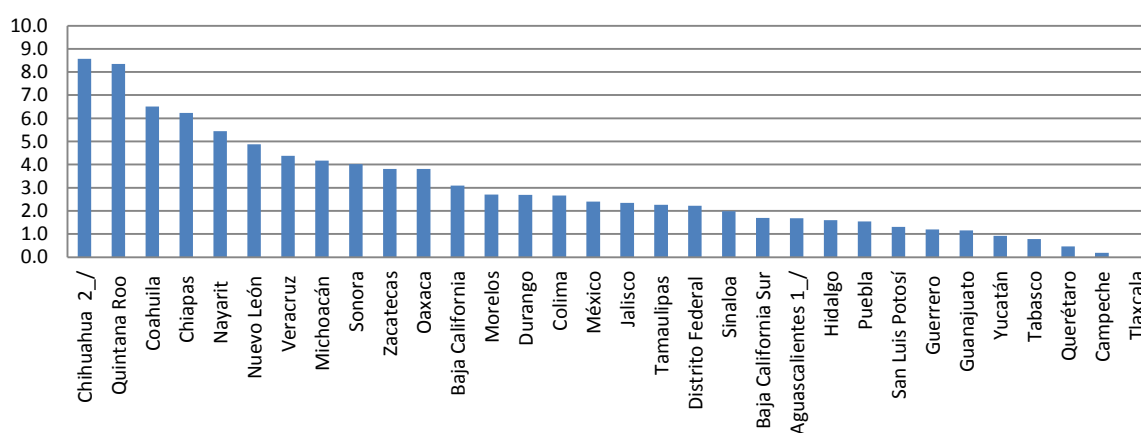
Depending on their legal mandates and capacities, SAIs can contribute towards fiscal sustainability through various means. In the first place, the results of financial audits validate the accuracy of public sector expenditures and help ensure correct accounting principles are being applied across government. The whole-of-government view provided by SAIs in annual consolidated accounts, including at times subnational levels, ultimately serves to provide Parliaments/Independent Fiscal Institutions, Ministries of Finance/Treasuries, Central Banks, the media and citizens in general a more accurate picture of the state of public finances.

Audits of public debt operations can also form part of such reporting activities and, while the scope of these varies across countries, can include oversight of interest payments, debt contract terms and conditions, revaluations, etc. etc. SAIs’ active role in strengthening internal controls can also

contribute to better fiscal sustainability when such audit criteria include mechanisms for assessing risks such as vulnerabilities to debt defaults. Furthermore, performance audits- in addition to helping battle waste and abuse of tax payers' dollars- can further uphold sustainability efforts when assessing the integrity and effectiveness of regulatory/supervisory frameworks or compliance with data disclosure regulations.

According to Mexico's Competitiveness Institute (IMCO), the State of Querétaro has amongst the lowest levels of public debt compared to other States (0.5% of GDP). This puts Querétaro against the general trend in the country of rising debt levels since the financial crisis in 2008 where the average annual increase since then has been calculated at 12.2% on average.

Figure 5. Levels of public debt as a share of GDP, Mexican States, March 2015



Source: Mexico's Ministry of Finance (SHCP).

'1_ / The total debt stock of Aguascalientes state government includes a provision whose primary source of repayment of principal at maturity of the credit, the form proceeds from the redemption of zero coupon bonds –purchased with own income of the entity -. Interest will be paid by the state government with funds from the federal contributions to the full. '2_ / The balance of the debt of the state government of Chihuahua includes three stock issues in the amount of 15.845 million pesos, which have no recourse against the state, that is, only they are paid and guaranteed with resources from carters flows. It also includes three loans whose primary source of repayment of principal at maturity of the credit, the form proceeds from the redemption of zero coupon bonds –purchased with the entity-own revenues. Interest will be paid by the state government with funds from the federal contributions to the full.

The Supreme Audit Institution of Querétaro publishes, online, an up-to-date report on levels of public debt by specific state entity. The report lists lending institutions, amount, conditions such as interest rates/duration, the purpose of loans, the source of payment and the amounts paid to date. The same report lists public debt for each municipality as well.

Source: IMCO, INTOSAI (ISSAI 5410, “Public Debt Management and Fiscal Vulnerability: Potential Roles for SAIs”, 2003) and Ministry of Finance (Secretaría de Hacienda y Crédito Público)

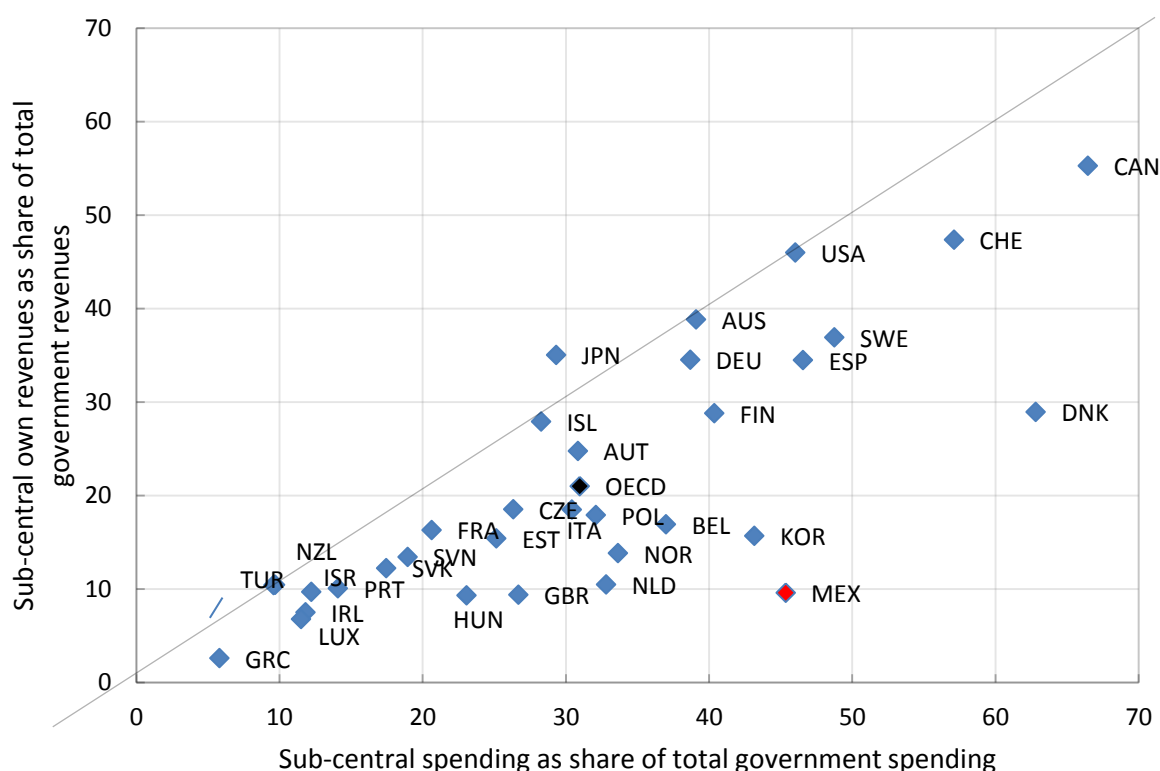
The risk of duplicative audits is high, especially at sub-national levels of government.

In addition to the incongruence of some audit standards, auditees at State and Municipal levels report being subjected to duplicative audits. Indeed, the risk for duplication increases with decentralisation and the number of potential auditing agencies involved (both internal and external, from federal to state and municipal levels). In some cases, audited agencies are also held liable for

audit criteria of individual line ministries under earmarked funds (health, education, social services, infrastructure, etc.), creating an extra layer of complexity and potential duplication.

This risk of duplicative audits is also evident by the high degree of financial dependence of subnational governments in Mexico on the federal government. Federal transfers to states and municipalities make up a large share of their resources, on average subnational expenditures amount to nearly half (45%) of total government spending, while they generate only 10% of total government revenues. Moreover, federal and state funds may both be used to finance certain programmes, making a duplicative audit unavoidable for certain expenditures. A second layer of duplication comes in the form of the type of audit conducted. A single programme may be subject to both compliance and financial checks.

Figure 6. Fiscal decentralisation: sub-central government's share in general government revenues and expenditures (2011)



Source: OECD Government at a Glance and Fiscal Decentralisation Database.

The National Auditing System (SNF) has a well-established architecture for formal and informal co-ordination, which it can further leverage to fill policy, information and other “gaps” between and across levels of government.

The SNF acts as a tool for vertical (between levels of government) and horizontal (between internal and external auditors) co-ordination. Several pre-existing co-ordination instruments were agglomerated under the SNF, including:

- The National Association of State Audit Institutions for external audit entities (Asociación Nacional de Organismos de Fiscalización Superior y Control Gubernamental, or ASOFIS); and
- The Permanent Commission of Federal and State Comptrollers for internal control entities (Comisión Permanente de Contralores Estados – Federación, or CPCE-F).

Both of these instruments are considered formal mechanisms for enhancing collaboration between federal and state actors in that they are underpinned by legislation and bilateral agreements. For internal control entities (SFP at the federal level and controllers at the state level), these agreements are known as, “Acuerdos de Colaboración”. In the case of external control entities, including the ASF and state audit institutions, these agreements are commonly referred to as “Convenios”. Both the CPCE-F and ASOFIS are comprised of smaller networks according to geographic regions.

In addition, the SNF formally provides for much-needed *horizontal* co-ordination across government through the SNF Board (*Comité Rector*) and various working groups, which help to facilitate both horizontal and *vertical* co-ordination. As summarised in table 2 below, the working groups include representatives from the executive branch (SFP), the ASF, as well as state representatives. The SNF also has established technical tools to facilitate the exchange of information and joint work such as a portal and online library of documents. Moreover, a newsletter is distributed to members to share good practices and information, including analysis from non-governmental experts. These working groups address co-ordination gaps in priority areas, and help the SNF to identify new areas of joint work.

Table 2. Overview of SNF’s Working Groups

Entity	Role	Participants
Governing Committee (<i>Comité Rector</i>)	Supreme organ of the SNF which serves a link with the SNA. It coordinates the other SNF’s Working Groups.	ASF, SFP and seven rotating members. Both the Auditor General and the Minister of Public Administration chair the Committee.
Working Group on Professional Norms (<i>Grupo de Trabajo sobre Normas Profesionales</i>)	Support the implementation of the SNF’s Auditing Professional Rules (<i>Normas Profesionales de Auditoría del Sistema Nacional de Fiscalización</i>).	ASF and SFP (one representative each) and five rotating members from CPCE-F and ASOFIS.
Working Group on Legal and Consulting Issues (<i>Grupo de Trabajo Jurídico Consultivo</i>)	Formulating and receiving proposals in relation to the SNA.	ASF and SFP (one representative each) and five rotating members from CPCE-F and ASOFIS.
Working Group on Internal Controls (<i>Grupo de Trabajo sobre Control Interno</i>)	Harmonising the internal control legal framework throughout levels of government; ensuring the assessment of internal controls of auditing entities; identifying the legal changes needed to strengthen the internal control bodies of the Executive power.	ASF and SFP (one representative each) and five rotating members from CPCE-F and ASOFIS.

Working Group on Governmental Accounting (<i>Grupo de Trabajo sobre Contabilidad Gubernamental</i>)	Supporting the implementation of the General Law on Accounting (<i>Ley General de Contabilidad Gubernamental</i>) and other measures adopted by the National Council for Accounting Harmonisation (<i>Consejo Nacional de Armonización Contable</i>); establish the conditions to link the auditing and the audited entities; support municipalities in public accounting matters.	ASF and SFP (one representative each) and five rotating members from CPCE-F and ASOFIS.
Working Group on Social Participation in the Oversight of Public Spending (<i>Grupo de Trabajo sobre Participación Social en la Vigilancia del Gasto Público</i>)	Designing a strategy for auditing entities to follow up their oversight on entities befitting from social funds and programs; elaborating recommendations to strengthen the effective functioning of the social participation actors.	ASF and SFP (one representative each) and five rotating members from CPCE-F and ASOFIS.

In addition to ASOFIS, CPCE-F, and working groups, the National Conference of Governors (Conferencia Nacional de Gobernadores, or CONAGO) and the National Conference of Mexican Municipalities (Conferencia Nacional de Municipios de México, or CONAMM) are additional examples of national co-ordination mechanisms and potential partners for the SNF to further enhance vertical co-ordination. In particular, OECD previously reported on the role of the CONAGO to improve co-ordination between federal and state governments by facilitating connections between policymakers at the federal and state levels on joint responsibilities for fiscal and development plans (OECD, 2013). To accomplish this, the report noted the need to strengthen CONAGO’s technical capacity and broaden its largely political mandate, but as a body is well-positioned to act as a main interlocutor of the federal government when it comes to issues regarding the states (OECD, 2013). This role could include further co-ordination on issues relevant to the SNF. Moreover, increased co-ordination and sustained communication between CONAGO and the SNF, in particular ASF, could also help to address any of CONAGO’s and CONAMM’s concerns regarding recent anti-corruption reforms.

Co-ordination mechanisms like those previously described are common in OECD member countries across a variety of sector areas (fiscal relations, regulatory policy and administrative simplification, e-government, etc.) to address and attempt to close a common number of “gaps” that occur across and between levels of government and ultimately hinder implementation and policy effectiveness including: policy gaps (harmonisation and gaps of laws and policies); capacity-gaps (filling weak or non-existent skills/capacities for implementation); information gaps (lack of or inability to access critical information for designing or implementing policies); fiscal gaps (lack of financial resources allocated for implementation, especially to subnational levels of government); and administrative gaps (where administrative jurisdictions are incongruent with the territorial scale of policy challenges) (OECD 2009).

OECD’s preliminary findings related to the co-ordination mechanisms within the SNF suggest the need for improvements to address some of the aforementioned gaps. Second, the SNF has established technical tools to facilitate the exchange of information and joint work such as a portal and online library of documents. A newsletter is distributed to members to share good practices and information, including analysis from non-governmental experts:

Increasing the effectiveness of these mechanisms however could further help address each of these gaps. In particular, improving co-ordination mechanisms could help to address specific issues, such as:

- under representation of some key constituents of the SNF, as well as specific focus on some major policy issues;
- lack of synergies with other national co-ordination mechanisms, such as the CONAGO and CONAMM, to help further maximise impact of the SNF's work;
- absence of formal and binding mechanisms for monitoring progress on goals and objectives;
- risk of further potential fragmentation in the CPCE-F and ASOFIS systems due to smaller regional subnetworks; and
- potential misalignment between ASOFIS, CPCE-F and the SNF.

While existing co-ordination mechanisms are well-established, the new systems for improving accountability and integrity in the public sector will place additional demands on improving horizontal and vertical co-ordination. Therefore, assessing the effectiveness of ASOFIS, CPCE-F, and other co-ordination mechanisms, is of critical for the enhancing the overall impact of the SNF.

Assuring independence of audit institutions at the state level is critical for effective accountability.

The Mexican Institute for Competitiveness (Instituto Mexicano para la Competitividad A.C., IMCO) and the University Centre for Economic and Administrative Sciences of the University of Guadalajara (Centro Universitario de Ciencias Económico Administrativas de la Universidad de Guadalajara, CUCEA) conducted a study in 2013 focusing on the institutional features that characterize the 32 EFS. In particular, the research assessed EFSs' legal frameworks with respect to ten strategic issues and scored the states by each issue. One of the issues was the independence of state audit institutions.

According to the study, only eight states have legislation that establishes full independence of their EFS. The criteria for the independence consisted of five elements: technical, managerial, organisational, functional, and adjudicative independence.³ The study adds, in spite of the inputs from INTOSAI and academia, that the independence of EFS is still limited by their legal frameworks, which give excessive power to legislative commissions or to the Congress. For instance, the legislature in some states is able to approve the internal regulations of the EFS or to decide on damages to public finances (IMCO-CUCEA, 2013). Moreover, four out fourteen states with ongoing or recent legal reforms had initiatives that aimed to improve the independence of the EFS.

In addition, officials of three EFS said state audit institutions have limited technical and functional autonomy from the ASF related to major pieces of its audit portfolio. As discussed, the audit portfolio for the states is primarily defined by the ASF, and implemented through coordinated audits at the state level. As a result, states have very little autonomy to determine their audit priorities for these audits. State audit institutions that OECD interviewed said this poses a challenge given the diversity of issues, needs, and audit risks that states and municipalities face. Taken together, the findings from the IMCO-CUCEA study, the ASOFIS/AFS questionnaire and interviews suggests the need for a deeper analysis of the underlying determinants of independence and autonomy at the state level, and ways to address any issues to assure the independent functioning of EFS.

POTENTIAL RECOMMENDATIONS

Emphasise ASF's comparative advantage in each of the three systems through a strategic review of capacity, to include a focus on supporting investigations instead of leading them, and further defining its role in the SNT.

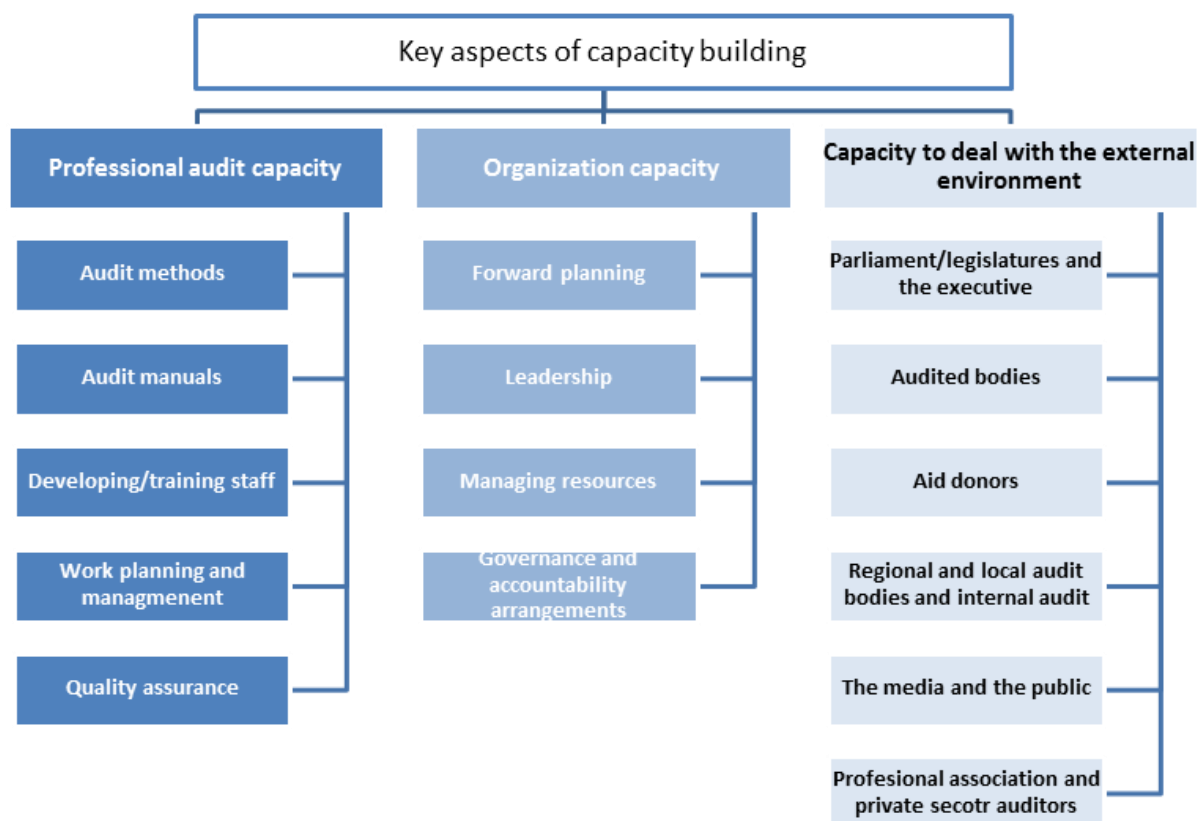
ASF's current strategic plan spans from 2011 to 2017, and will soon need updating. This provides an opportunity for the ASF to set new priorities for its activities in light of recent reforms that focuses not just on its role in the SNF, but across all three systems. Of paramount concern is the ASF's ability to maintain its strategic and operational agility. ASF's audit planning is one positive example of its efforts to do this; however, taking on a lead role in investigations could overextend the limited resources ASF has at its disposal. In addition, the reform outlines a general role of participation of the ASF in the SNT, but further thinking about the extent and type of contributions would be beneficial for taking a more holistic approach to strategic planning and resource management. Further clarification of this role could help it to define its comparative advantage, and to identify potential strategic priorities for effectively contributing to both the SNF and the SNT.

In thinking about its operational agility, examination of the internal capacity and structural aspects of the ASF would be critical and timely. Such an examination can include a strategic review of the ASF's audit capacity, organisational capacity, and its ability to manage the external environment. Other relevant areas for review are operating structures, internal control schemes, procedures of redistributing human and technical resources, and development of management tools. The process of assessing capacity should not be completed on an ad-hoc basis, as best practices call for implementation of sequential steps in developing capacity. Those steps can include:

1. Assess - Assessing the current state of the ASF's capacity, and relevant challenges.
2. Design - Designing an approach to improving capacity and overcoming challenges.
3. Implementation – Implementing the strategy for capacity building.
4. Lessons Learned – Conducting evaluations and reviews of the implementation.
5. Institutionalizing the capacity – Incorporating activities for maintaining the desired capacity level.

The steps above also require constant monitoring and feedback mechanisms that further contribute ongoing learning. The internal and external environment is fluid and subject to ongoing changes, and therefore the capacity building efforts must be flexible and responsive to the changes. Key aspects of capacity building, as it relates to SAIs are illustrated in Figure 2 below.

Figure 7. Key Areas for Capacity Building in SAIs



Source: INTOSAI (2007).

Box 6. Capacity Building Inputs from the SAI of the State of Coahuila

The effectiveness of Supreme Audit Institutions depends on their ability to constantly assess and develop their skills, knowledge, structures and working methods. The latter capacity building process is a key element to improve the work of SAIs and represents a priority for INTOSAI, which deals with such issue through a specific committee (Capacity Building Committee). The Guide provided by the latter INTOSAI's body identifies three aspects of capacity building for an SAI such as professional audit capacity, organisational capacity, and the capacity to deal with the external environment. Emphasis is also laid on the importance of the context where the SAI operates and, in particular, on the level of Public Financial Management, the accounting standards in use, and the adequacy of internal control and internal audit (INTOSAI 2007).

The federal government is planning to support the capacity building process of state audit institutions by allocating specific resources to improve and harmonize government accounting. In particular, Article 41 of the Draft Budget Law for the Fiscal Year 2016 allocates specific resources to the training and professionalization of the administrative units responsible for government accounting, as well as to modernize information and communication technologies. This effort will allow the accomplishment of accounting harmonization throughout the three branches of government in line with the General Law on Government Accounting.

The capacity building efforts of the federal government in the realm of accounting harmonization started in 2013,

and continue into 2016. For instance, the audit institution of the State of Coahuila (Auditoría Superior del Estado de Coahuila de Zaragoza, or ASEC) provides content for a training course on Government Accounting (“Diplomado Virtual de Contabilidad Gubernamental”). This course on government accounting for government professionals has been recognized internationally and has been highlighted in the magazine “E-Learner.” The course has involved 6200 public officials of 26 States. In addition, ASEC and ASOFIS will coordinate and implement an accounting system called “SiMCA,” which will be rolled out across the country for municipalities with less than 25 thousand inhabitants.

INTOSAI (2007), *Building capacity in Supreme Audit Institutions. A Guide*, International Standards of Supreme Audit Institutions, INTOSAI Capacity Building Committee, http://www.intosaicbc.org/mdocs-posts/buildingcapacityinsaisguide_englishversion/

Develop a robust communication strategy that focuses specific attention on the Congress, its committees, and auditees.

The Congress should scrutinise audit reports the SAI prepares in a timely manner (OECD, 2002). Moreover, as a part of its oversight functions, the Congress examines the execution of the state budget and it is common in OECD countries for the legislature to either formally (as in the case of a discharge procedure) or informally (implicitly) give a political opinion on the way the executive has executed the budget (OECD, 2002a; 2002b; 2013). Enhancing the ASF’s communication with Congress can further contribute to this crucial budget oversight function.

The ASF’s annual reporting to the Congress and the general public is in line with the INTOSAI’s “Lima Declaration of Guidelines on Auditing Precepts” (INTOSAI, 1977: § 16). However, challenges remain with regards to communicating the added value of the ASF to Congress and its committees. Currently, much of the communication with the Congress is ad-hoc. A more strategic approach for engaging the Congress, particularly in light of additional reporting requirements throughout the year, could help to enhance the ASF’s impact and relevancy for this key user of its work. An effective communication strategy would account for the barriers and constraints affecting the Congress’ understanding of the ASF’s reports.

In addition, as discussed, steps could be taken to develop a more constructive working relationship with auditees, which can ultimately lead to improved absorption of audit recommendations. While this relationship depends in part on the quality of the ASF’s work and relevancy of the recommendations made, a communication strategy for interacting with auditees that articulates shared goals and improvements to governance would help to align the ASF with best practices and international standards. For instance, ISSAI and INTOSAI guidelines establish a number of good practices for SAIs to engage with auditees and responsible parties. Box 3 provides additional information on relevant standards.

Box 7. Overview of Selected Standards for SAIs’ Communication with Auditees

INTOSAI’s “Fundamental Principles of Public Sector Auditing” (INTOSAI, 2013b) recognise that SAIs should enhance good communications with auditees in order to develop a constructive working relationship. This communication may include information on the responsibilities of the auditor and auditee throughout the audit cycle and the objective, scope and timing of audit engagements. Moreover, these principles state that SAIs should ensure that the terms of audit engagements have been clearly established in writing, communicated and understood by the auditee

and responsible parties (INTOSAI, 2013: § 48). INTOSAI’s guidance on “How to Increase the Use and Impact of Audit Reports” notes that the relationship between the SAI and the auditee can be greatly improved if the SAI sets up communication protocols (INTOSAI, 2010a). Finally, INTOSAI’s “Principles of Transparency and Accountability” note that SAIs consider adopting objective and transparent audit standards, processes and methods (INTOSAI, 2010b).

The National Auditing System (SNF) could be mandated with the responsibility of developing the common evaluation framework for internal control and risk management.

SFP has a clear mandate for evaluating internal control processes, and such reviews are within ASF’s jurisdiction as well. The same holds true for activities risk management, as this is an area that is cross-cutting for both internal and external control entities. The potential that SFP will use one framework when conducting such evaluations in these areas, and the ASF may use another, is problematic. Auditing against two sets of standards can create confusion, duplication and ultimately harms both external and internal auditors’ advisory roles within government.

The fundamental concepts related to internal controls and risk management may be similar across frameworks, but overcoming the potential learning curve to understand the differences should not be the responsibility of the audited entity. The consistent application of frameworks and standards by audit entities allows for my effective and efficient application of internal control processes and risk management practices by managers. Leading practices suggest a leadership role for the ASF in this harmonisation process. INTOSAI (2013c) and INTOSAI (2013d) stress the role of external audit institutions as ultimate national audit authorities responsible for evaluating the effectiveness of the internal audit function under the auspices of performance audits, and the ASF therefore would be well placed to lead a collaborative effort on determining/setting criteria within the SNF.

The Institute for Internal Auditors (IIA) and the experiences of other countries further suggest a leading role for the ASF in harmonising frameworks and standards. For instance, the IIA recognises the important role of both internal and external auditors, and suggests as a good practice that internal auditors use the same evaluation templates as those used by external auditors as a means of reducing the burden on internal auditors and committees (CAQ-IIA, 2015). Moreover, based on international experiences from the United States, Canada and the United Kingdom, a collaborative effort-led by the national SAI (i.e. ASF) is a leading practice. It is not only a matter of SAI independence to evaluate against its own standards, however, but also a matter of good practice in collaboration.

Box 8. GAO Green Book: A Supreme Audit Institution takes the lead in setting internal control standards for government

The United States’ Federal Managers’ Financial Integrity Act (FMFIA) requires that federal agency executives periodically review and annually report on the agency’s internal control systems. The FMFIA requires the Government Accountability Office (GAO), the federal government’s Supreme Audit Institution, to prescribe internal controls standards.

The “Standards for Internal Control in the Federal Government”, coined the “Green Book”, were first issued in 1983 and most recently revised in 2014, apply to cover both program and financial management. They are generally aligned with COSOII and set out management’s responsibilities for developing and maintaining the internal control environment, risk assessment, control activities, information and communications; and monitoring. The standards are required for federal government entities, the Green Book may also be adopted by state, local,

and quasi-governmental entities, as well as not-for-profit organisations.

Though the GAO leads the standard-setting process for *the Green Book*, it adopts a collaborative and consultative approach. The Comptroller General established the Green Book Advisory Council (GBAC) in 2013 to provide input and recommendations for revisions to the Green Book. The GBAC consists of highly qualified individuals with complementary skills that provide a strong knowledge base in internal controls from entities such as:

- internal audit community;
- federal, state, and local government;
- academia; and
- organisations that perform financial, compliance, and performance auditing.

GBAC members serve two year terms and may be reappointed by the Comptroller General. In addition to inputs from the GBAC, revisions also go through a public consultation and extensive exposure draft process.

While the GAO has the legal mandate to establish standards, policies concerning its implementation are instead the mandate of the Office of Management and Budget (OMB). OMB Circular A-123 - Management's Responsibility for Internal Control- sets out requirements for conducting management's assessment of internal control over financial reporting. It is accompanied by an Implementation Guide to assist managers to comply with standards, assisting them with documenting, testing and assessing internal control effectiveness.

Source: GAO and OMB.

The SNF could spearhead legislation or policies to avoid “death by audit”, especially for subnational levels of government.

To avoid duplication (i.e. “death by audit”) between internal and external auditors in the oversight of federal transfers, the SNF could consider laws and policies adopted in other countries (see Box 6 below). A Single Audit encompasses a single methodology and audit requirements of certain eligible government entities (usually above a certain predetermined budgetary threshold) with the intent of reducing burdens and streamlining the audit process. Canada, the United States and United Kingdom are among the countries that undertake this project (Box 6).

Box 9. Reducing duplication and audit burden across levels of government

Canada

In Canada the use of the “single audit” took some time to come to fruition. The proposal for a “single audit” has been promoted ever since the 1980’s, when the Treasury Board of Canada began to stress some its advantages, namely to eliminate duplication of audit efforts and to clarify the audit of federal transfers to provincial governments. In 2000, the Treasury Board of Canada’s Policy on Transfer Payments suggested that departments and agencies “coordinate their activities in developing and carrying out their contribution audit plans by entering into cross-servicing agreements for audit coverage where feasible.” (Treasury Board of Canada, 2000). It was not until 2008, however, that the Auditor General of Canada called the Government to implement a single audit process for the recipients of transfer payments from federal programs with the “2008 Directive on Transfer Payments”.

In 2010, the concept was further cemented with the “Guidelines on Recipient Audits Under the Policy on Transfer Payments and the Directive on Transfer Payments”, where a single recipient audit is defined as “a coordinated approach to recipient auditing whereby an auditor representing some or all donors conducts a single recipient

audit of a common recipient to verify compliance with terms and conditions of some or all funding agreements with that particular recipient.” In order to coordinate single recipient audits, the Guidelines provide a few indications:

- each department should map the list of recipients by program and provide some indication of the risk level;
- costs/benefits assessment of coordinating a single recipient audit, both within and among departments, should be carried out; and
- departmental managers should assess how many and how much of the funding agreements with any one recipient should be audited based on an assessment of risk.

Further practical guidance is provided by the Treasury Board of Canada Secretariat's Centre of Expertise on Grants and Contributions, which prepared a reference document on single recipient audits named “Single Recipient Audits - Summary of Current Practices of Selected Departments”.

The United Kingdom

The Local Audit and Accountability Bill was published in the House of Lords on the 9 May 2013, having received pre-legislative scrutiny in the autumn of 2012. It received Royal Assent on the 30 January 2014, becoming the Local Audit and Accountability Act 2014.

The Act had a significant impact on local government auditing, including addressing potential duplicative audits. Specifically, the Act required the Comptroller and Auditor General (C&AG) to prepare one or more codes of audit practice prescribing the way local auditors are to carry out their functions. The new framework retained a proportionate audit regime for smaller authorities (those with a turnover below £6.5 million). This will include exempting those authorities with an annual turnover below £25,000 from automatic external audit and introducing a new transparency requirement to enable local people to access relevant information about the authorities' accounts and governance.

For those over this threshold, the C&AG have taken the opportunity to prepare a single code covering the audit of different types of local public body. This reflects the fact that the core statutory responsibilities placed on the auditors of the different types of local public body covered by the Code are essentially the same. In addition, a single code has practical benefits and helps promote consistency of approach. Where differences exist in what the auditors of different types of local public body are required to do, the C&AG highlighted these within the Code or addresses them in detailed guidance to auditors.

Source: respective SAIs.

Increase the effectiveness of the SNF's existing co-ordination mechanisms by addressing strategic, structural, and operational issues, including the following:

- *Alignment of strategic objectives and goals:* The SNF, CPCE-F and ASOFIS should ensure in their respective strategic plans that their objectives are aligned. Consideration should be given to the specific issues that each body is set to address or examine, bearing in mind that in unique circumstances some duplication may be reasonable. Likewise, fragmentation should be considered, including infrastructure and public procurement.
- *Expanding the membership of the Governing Committee:* to include, at least with observer status, representatives from municipalities, and other branches of government which are currently underrepresented, but officially members of the SNF.
- *Expanding the size and representativeness of membership in Working Groups:* increasing the size of the various SNF groups, particularly by increasing the number of sub-national governments, could be beneficial in terms of getting greater buy-in on policies and facilitating implementation of approved initiatives. It would also be essential to reflect a

greater diversity of views in the Groups in order to identify any early legal and capacity gaps that should be considered in the design of policies and implementation plans. Finally, the inclusion of representatives from municipal levels would be key towards addressing some of the most prominent challenges to implementation which are present at these levels.

- *Leveraging other existing national co-ordination mechanisms to maximise impact:* This could include CONAGO and CONAMM, and outreach to the Congress concerning the work of the SNF, which could include Finance and Public Accounts Committees. These are key constituencies for Supreme Audit Institutions that can be engaged.
- *Increase the frequency of meetings:* While the Working Groups have the benefit of using virtual tools for joint work, the sharing of results occurs only in Plenary meetings that have the frequency of one year. Biannual meetings could incentivise quicker progress.
- *Increase the binding nature of the SNF work:* With the application of output and outcome objectives, transparent monitoring (scorecard/board) and reporting to the Governing Committee and the Congress.

Box. 10 Multi-level governance of the external audit function: examples of coordination in OECD member and partner countries

Collaboration between levels of government in external audit is necessary for avoiding duplication and fragmentation; however, it varies in formality and intensity across countries according to different legal/administrative contexts.

Australia

The Australasian Council of Auditors-General (ACAG) is open to the Auditors-General of all audit jurisdictions within Australia, New Zealand, Fiji and Papua New Guinea. Associate membership and observer status may be accorded to any eligible jurisdiction. Members meet half yearly and the ACAG employs an Executive Director to co-ordinate activities and meetings.

The ACAG provides arrangements for the sharing of information between members, supports the development of effective and efficient auditing methods and practices by members, and represents externally, where appropriate, the collective opinion of the Auditors-General on financial accounting and auditing standards and related issues. It does this by:

- *Facilitating the sharing of information and discussion of matters of mutual interest to members, concentrating on the essential elements of the Legislative Audit;*
- *Providing opportunities for Audit Offices to improve their own effectiveness and efficiency through a professional quality assurance peer review program, benchmarking surveys, targeted reviews of particular functions and operations;*
- *Promoting educational, training and professional development activities that will contribute generally to an Audit Offices performance;*
- *Supporting the development of audit methodologies and practices for, and approaches to, the discharge of audit mandates;*
- *Promoting co-operation in the conduct of audits; and*
- *Identifying and promulgating, where appropriate, the collective opinion of Auditors-General on financial accounting and auditing standards and related issues.*

The ACAG also acts as a voice for auditors with parliaments and the auditing community outside of the public sector. With the Agreement of all members, issues "Statements of Principle" with norms and standards on several

relevant policy areas (past statements have been on such matters as accountability and the role of audit institutions, commercial confidentiality and the public interest, etc.) Second, it makes submissions as an organisation to various public inquires and to non-governmental accounting and auditing standard setters.

Brazil

Brazil is composed of 26 States, one Federal District and 5570 municipalities. Similarly to the SNF in Mexico therefore, in Brazil, federal, state and municipal external audit institutions coordinate through the Association of Courts of Audit of Brazil (ATRICON), which was created in 1992 in order to strengthen relationships between Courts of Audit through the design and implementation of tools to enhance control systems and facilitate the exchange of information between institutions. ATRICON works in close partnership with the Institute Rui Barbosa (IRB, the TCU's internal think tank), and the Brazilian Association of Municipal Audit Courts (ABRACOM), as well as a series of national professional associations (the National Associations of Auditors, Public Prosecution Service Accounts, College of Prosecutors and Ombudsmen of the Audit Court of Brazil). ATRICON counts with a permanent Secretariat of about 10 staff to help support initiatives.

Elected every two years, the ATRICON Board sets, in consultation with members, the Association's strategic goals and actions. The 2012-2017 strategic plan includes measures for: citizen engagement and external communication, strengthening information-sharing between members, increasing audit transparency, quality control measures for audits, and supporting knowledge-sharing and capacity-building. Second, ATRICON works in sector-specific policy areas including: infrastructure and education.

Furthermore, the TCU itself- through ATRICON- utilises both joint and coordinated audits. Similar to the *convenios* between ASF and individual States, the TCU enters into bilateral agreements with both States and Municipalities for a set of pre-determined scope of audits. Recent joint work has centred on social security regimes, quality of education facilities and health systems. Cooperation agreements between the TCU and the different states and municipalities involved are detailed listing the audit scope, methodology, resources, planning (including pilot audits), the databases/information to be used, etc. A recent 2013 coordinated audit on high school education for instance included 90 auditors from the TCU working jointly with State and municipal audit staff.

European Court of Auditors

The ECA operates as a collegiate body of 28 Members, one from each Member State. The Members are appointed by the Council after consultation with the European Parliament for a renewable term of six years. Members elect one of their number as President for a renewable term of three years.

The Treaty on the functioning of the EU requires the ECA and national audit bodies of the Member States to cooperate in a spirit of trust, while maintaining their independence. Cooperation between the SAIs of the EU Member States and the ECA dates back to the beginning of the Court's existence in 1977, and has increased over the years. Today the ECA actively cooperates with EU Member State SAIs through the Contact Committee framework.

The Contact Committee is an assembly of the heads of EU SAIs and the ECA, and meets each year. It provides a forum for cooperation and exchange of professional knowledge and experience on the audit of EU funds and other EU-related issues. Day-to-day contacts are maintained through liaison officers appointed by each institution. Working groups, networks and task forces are used to help develop common positions and practices. Active working groups currently include: the joint working group on audit activities, and the working groups on structural funds, value-added tax, and preventing and combating irregularities and fraud. Additionally, several Networks and Task Forces are in place including: the Networks on Fiscal Policy Audit, Lisbon Strategy, National SAI Reports on EU Financial Management, Network on independent assessment of national public economic policies, and the Task Forces on Public Sector Accounting Standards for European Member States and one dedicated to evaluating the Contact Committee's own cooperation framework.

The Committee meets annually and, in addition to issuing statements, working group outputs and resolutions, agreed to undertake four collaborative audits. Considering the importance of the Europe 2020 strategy, two audits will be aimed at projects promoting education and employment. One audit will focus on the underlying risks for the sustainability of public finances and one will deal with the implementation of prudential supervision of banks.

Germany

The Bundesrechnungshof and the audit institutions of the sixteen constituent states of the Federal Republic are autonomous and independent bodies of external auditing. This fact precludes any subordination to one another. Nevertheless, the fiscal systems of the Federation and of the states are largely intertwined so that close cooperation is needed. Indeed, applicable budgetary law is widely identical at federal and state level and a number of programmes are funded jointly by the federal government and the states, e.g. the promotion of non-university research, improvement of coastal defences or welfare benefits such as tenants' relief. In addition to this (similar to Mexico's participaciones funds), high-yielding tax revenues on income and turnover (V.A.T.), and corporation tax, are shared inflows to the credit of both the Federation and the states.

Where the Bundesrechnungshof and any regional audit institution share auditing responsibilities, they may perform joint audits, or they may agree to delegate audit functions. The Presidents of the Bundesrechnungshof and of the regional audit institutions meet at regular intervals to discuss issues of common interest. Preparatory talks are held in working groups set up by the audit institutions to deal with budgetary law or matters of general policy and guidance, taxation, public works, organisation and information technology, economics and government shareholdings.

United Kingdom

The Public Audit Forum (PAF) in the United Kingdom was established in 1998 to provide a focus for developmental thinking about public audit. The Forum's members are Audit Scotland, the National Audit Office (NAO), the Northern Ireland Audit Office (NIAO) and the Wales Audit Office. Its remit is to contribute to the exchange of experiences and good practices, as well as methods for investigating the conduct and value for money achieved by those using public money to deliver public services be they be in the private, public or third sectors. Unlike in Mexico and some of the other countries presented here, the main role of the Forum is consultative and advisory, it is not able to direct the national audit agencies and other bodies involved in public audit.

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NOTES

¹ Line ministries are the centralised administrative bodies of the Federal Executive that report directly to the president. Their mandate and attributions are defined in the , and structure is defined in internal regulation. There are 19 line ministries in the Federal Public Administration. Ministries are entitled to propose bills, enact regulation, decrees, and agreements, among other legal instruments (OECD, 2014).

² Acuerdo por el que se emiten las Disposiciones en Materia de Control Interno y se expide el Manual Administrativo de Aplicación General en Materia de Control Interno.

³ The criteria for the independence indicator consisted of five elements of independence: technical, managerial, organisational, functional, and settling (IMCO-CUCEA, 2013).

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