Progress Report on the Implementation of Mexico’s National Auditing System

ROADMAP FOR STRENGTHENING ACCOUNTABLE GOVERNANCE
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Acronyms and Abbreviations

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<th>Description</th>
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<tbody>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
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<tr>
<td>ASF</td>
<td>Superior Audit Office of the Federation (Auditoría Superior de la Federación)</td>
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<td>ASOFIS</td>
<td>National Association of State Audit Institutions and Government Control (External) (Asociación Nacional de Organismos de Fiscalización Superior y Control Gubernamental)</td>
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<tr>
<td>CBO</td>
<td>U.S. Congressional Budget Office</td>
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<tr>
<td>CMC</td>
<td>Australian Crime and Misconduct Commission of Queensland</td>
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<tr>
<td>CONAGO</td>
<td>Mexico’s National Conference of Governors (Conferencia Nacional de Gobernadores)</td>
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<td>CONAMM</td>
<td>National Conference of Municipalities of Mexico (Conferencia Nacional de Municipios de México)</td>
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<tr>
<td>COSO</td>
<td>Committee on Sponsoring Organisations of the Tredway Commission</td>
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<tr>
<td>CPCE-F</td>
<td>Permanent Commission of State Controllers-Federation (Comisión Permanente de Contralores Estados-Federación)</td>
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<tr>
<td>CRS</td>
<td>U.S. Congressional Research Service</td>
</tr>
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<td>CVASF</td>
<td>ASF Vigilance Committee</td>
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<tr>
<td>DGFA</td>
<td>ASF’s Director General of Forensic Audits</td>
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<tr>
<td>EFSEs</td>
<td>Mexico’s State Audit Institutions (Entidades de Fiscalización Superior Estatales)</td>
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<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>INAI</td>
<td>Federal Institute for Access to Public Information and Data Protection (Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales)</td>
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<tr>
<td>INTOSAI</td>
<td>International Organisation of Supreme Audit Institutions</td>
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<td>ISSAI</td>
<td>International Standards of Supreme Audit Institutions</td>
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<td>KPI</td>
<td>Key performance indicators</td>
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<td>LFRCF</td>
<td>Law on the Accountability and Submission of the Accounts of the Federation (Ley de Fiscalización y Rendición de Cuentas de la Federación)</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>---------</td>
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<tr>
<td>LGRA</td>
<td>General Law on Administrative Responsibilities (Ley General de Responsabilidades Administrativas)</td>
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<td>LGSA</td>
<td>General Law on the National Anti-Corruption System (Ley General del Sistema Nacional Anticorrupción)</td>
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<td>LSPC</td>
<td>Law on Professional Career Service in Mexico’s Federal Public Administration (Ley del Servicio Profesional de Carrera de la Administración Pública Federal)</td>
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<tr>
<td>MECI</td>
<td>Standard Model of Internal Control (Modelo Estándar de Control Interno)</td>
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<td>MICI</td>
<td>Integrated Framework for Internal Control in the Public Sector (Marco Integrado de Control Interno en el Sector Público)</td>
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<td>OBR</td>
<td>U.K. Office for Budget Responsibility</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OIC</td>
<td>Internal Control Body (Órgano Interno de Control)</td>
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<tr>
<td>OLACEFS</td>
<td>Organization of Latin American and Caribbean Supreme Audit Institutions</td>
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<td>OMB</td>
<td>U.S. White House Office of Management and Budget</td>
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<tr>
<td>PAC</td>
<td>Public Account Committee</td>
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<tr>
<td>PBO</td>
<td>Australia’s and Canada’s Parliamentary Budget Office</td>
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<tr>
<td>PGR</td>
<td>Office of the Attorney General of the Republic (Procuradoría General de la República)</td>
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<td>PAAF</td>
<td>ASF’s Annual Programme of Audits for Public Account</td>
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<td>SAAR</td>
<td>Mexico’s automated risk management system</td>
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<td>SAI</td>
<td>Supreme audit institution</td>
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<td>SFP</td>
<td>Ministry of the Public Administration (Secretaría de la Función Pública)</td>
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<tr>
<td>SLA</td>
<td>Local Anti-Corruption System (Sistema Local Anticorrupción)</td>
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<td>SNA</td>
<td>National Anti-Corruption System (Sistema Nacional Anticorrupción)</td>
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<tr>
<td>SNF</td>
<td>National Auditing System (Sistema Nacional de Fiscalización)</td>
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<td>SNT</td>
<td>National Transparency System (Sistema Nacional de Transparencia)</td>
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<tr>
<td>TCU</td>
<td>Brazil’s Supreme Audit Institution (Tribunal de Contas da União)</td>
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<tr>
<td>XBRL</td>
<td>Extensible business reporting language</td>
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Executive summary

Assessing progress and providing a roadmap for the implementation of Mexico’s National Auditing System

Recent reforms in Mexico formally established Mexico’s National Auditing System (Sistema Nacional de Fiscalización, or SNF) to promote principles of good governance, accountability and transparency. Through a considerable overhaul of how public institutions operate, including audit institutions at the federal, state and municipal levels, the reforms sought to improve safeguards for public integrity and ensure effective management of public resources. The promise of the reforms now relies on effective implementation, which will require the intensification of coordination and harmonisation efforts at all levels of government from a long-term perspective.

This report assesses Mexico’s progress in implementing the SNF, taking into account the OECD policy recommendations in the report, “Mexico’s National Auditing System: Strengthening Accountable Governance” (the phase 1 report), which was launched by the OECD Secretary General, Angel Gurría, in October 2016. In addition, this report provides a roadmap for key actors within the SNF, including the Supreme Audit Institution (SAI) of Mexico (Auditoría Superior de la Federación, or ASF), to effectively and comprehensively fulfil their mandates as part of Mexico’s broader governance framework. Such framework includes the National Anti-Corruption System (Sistema Nacional Anticorrupción, or SNA) and the National Transparency System (Sistema Nacional de Transparencia, or SNT).

This report is structured according to the recommendations of the phase 1 report and whether they apply to ASF (chapter 2) or to SNF institutions more generally (chapter 3). Indeed, concerning the set of recommendations included in chapter 3, ASF and the Ministry of Public Administration (Secretaría de la Función Pública, or SFP) may, as co-chairs of the SNF, merely exercise their leadership and provide technical advice with a view to achieving these reforms, as local legislatures, local executive branches, or Mexico’s State Audit Institutions (Entidades de Fiscalización Superior Estatales, or EFSEs) may have the ultimate discretion to implement reforms based on the division of powers outlined in the Mexican Constitution.

Enhancing ASF’s strategic approach for effectively implementing Mexico’s National Auditing System and fulfilling its mandate

Through its audits and evaluations, ASF plays a central role in providing evidence, analysis and assurance to improve public administration and inform decision making in Congress. ASF has achieved meaningful progress since the launch of Mexico’s governance reforms that formally established the SNF in law in 2016. Progress includes improvements to ASF’s examinations of broader governance issues and the performance of programmes responsible for implementing the national budget, as well as more
effective communication with Congress by better targeting of its reports to the interests and needs of policymakers. As a result of such changes, ASF officials perceived a greater public awareness of ASF’s role and impact, and a more consistent reference to its work in mainstream media.

However, ASF still faces important challenges at the operational level. It has yet to formalise the structures required by the coming into force of the General Law on Administrative Responsibilities (Ley General de Responsabilidades Administrativas, or LGRA), and build the internal capacity that are required for the fulfilment of its new mandate. The new mandate includes responsibilities to report three times per year to the Congress instead of once, as well as investigative authorities. To effectively deliver on this expanded mandate, ASF could further refine its selection of audits through more balanced audit programming, and thereby better manage the risk of overextension.

ASF recently experienced a transition in leadership, which included a protracted process in the Congress to select a new Auditor General. According to ASF officials, this process, which began in 2017, influenced the extent to which progress was made on recommendations with medium- and long-term implications. Nonetheless, the recommendations included in both OECD phase 1 and phase 2 reports are based on objective good practices that are aligned with international standards, with a view to leaving room to ASF’s new leadership to define in detail how and according to which timeframe each recommendation will be implemented.

Taking this context into account and based on OECD’s assessment of the ASF’s progress in responding to the recommendations of phase 1, the OECD identified additional proposals for action to help guide ASF in implementing the SNF and fulfilling its own mandate:

At the strategic level

- ASF could further adapt its audit programming, planning and execution based on specific needs from Congress on an ongoing basis, and ensure that the methodology used for the selection of audits is transparent.
- ASF could consider elaborating on potential systemic vulnerabilities in Mexico’s internal control system and risk management that allowed specific fraud or corruption cases to occur, and suggest improvements, as required by the LFRCF.
- ASF could further define its vision and strategic objectives while developing its forensic auditing and investigation capacities in order to proactively address potential risks.

At the operational level

- ASF could regularly update its audit objectives based on Congressional priorities, outcomes from other audits, information gathered from early audit planning and predefined indicators to measure the impact of audit reports.
- ASF could devise a comprehensive communication strategy that would balance expectations about its role from the public and main stakeholders, strengthen partnerships with expert staff of legislatures, and seek feedback from users of ASF reports about how ASF achieves its role and mandate.
- ASF could also consider improving co-operation and co-ordination between forensic audit teams and other audit departments in order to identify and
executive summary

SNF institutions made noticeable progress in establishing the strategies and structures that will allow for effective implementation of the SNF's mandate. For instance, a working group on transparency (Grupo de Trabajo Sobre Transparencia) was formally established during the first meeting of the SNF steering committee in June 2017, whose role is to coordinate initiatives that span across both the SNF and the SNT. In addition, SNF institutions agreed to consolidate standards for internal control and risk management into the Integrated Framework for Internal Control in the Public Sector (Marco Integrado de Control Interno en el Sector Público, or MICI), which once completed, will provide consistent criteria for both internal and external audit institutions in the federal, state and municipal public sector. The SNF has also advanced on other initiatives, such as the development of virtual platform to enhance co-ordination between 66 member institutions, harmonisation of professional standards for auditors and improvements to trainings to reinforce technical capacity.

However, work remains to address implementation challenges facing the SNF. In particular, effective and successful implementation of the SNF relies on improvements to independence and the technical capacity of its member institutions, particularly at the local level, as outlined in the International Organisation of Supreme Audit Institutions' (INTOSAI) Mexico Declaration on SAI independence and the Organization of Latin American and Caribbean Supreme Audit Institutions' (OLACEFS) Declaration of Asunción on Budgetary Security and Financial Stability of Supreme Audit Institutions. At the local level, issues of independence and technical capacity are acute. As of September 2017, 15 of 32 states had not yet adopted their law on internal control and audit and in some states governors held decision making powers over audit institutions’ internal matters that could undermine independence. ASF can provide leadership and limited support through strategic technical advice in this area, but the ultimate responsibilities for reform lies with the state legislatures, governments and state audit institutions.

Resolving independence and technical capacity issues is complex, and SNF institutions currently favour an incremental approach towards the implementation of related recommendations on a medium-term basis. Nevertheless, SNF institutions will begin to reap the full benefits arising from recent constitutional reforms only when subnational audit institutions are sufficiently independent to appropriately hold governments accountable.

To further guide relevant actors, particularly subnational governments and audit institutions, to implement a consistent approach to the implementation of the SNF at the local level, the OECD offers the following proposals for action:

At the strategic level

- Beyond the development of certain tools and policies, define how such tools and policies will be effectively implemented in a coherent manner and how progress will be monitored, based on OECD guidance included in phase 1 and 2 reports.
• Institutionalise advice and guidance on risk management, internal control and audit, such as establishing appropriate governance structures and promoting staff ownership over new processes and procedures.

• Promote good governance and accountability within the SNF, such as ensuring fair representation of SNF institutions among governance structures and precisely establish how SNF institutions will be made accountable for implementing reforms.

At the operational level

• Remove legal obstacles for meaningful independence of audit institutions, as well as their staff, in a consistent and coordinated manner across all government levels in Mexico.

• Improve coordination among audit institutions to create synergies and efficiencies, including through an optimal use of the SNF virtual audit platform and the development of a single audit approach.

• Carry out capacity-building and knowledge transfer based on need and in a consistent manner across audit institutions and legislatures.
1. Introduction: Providing a Roadmap for the implementation of the OECD Recommendations on Strengthening Accountable Governance in Mexico’s National Auditing System

Mexico’s National Auditing System (Sistema Nacional de Fiscalización, or SNF), like 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), arises from recent major governance reforms by the Mexican Congress to enhance public governance, accountability and transparency in Mexico's public administration. The constitutional reform that led to these systems became effective in May 2015, and the Mexican government endorsed the General Law for the National Anti-Corruption System in the summer of 2016. These reforms, which are front and centre to scaling back corruption and achieving effective management of public resources and services in Mexico, involved a considerable overhaul of public institutional arrangements that impacted all audit institutions at the federal, state and municipal levels. Achieving optimal implementation of these reforms will not happen overnight and will extend over many years.

This report assesses Mexico's progress in implementing the SNF as well as OECD recommendations from its phase 1 report entitled “Mexico’s National Auditing System: Strengthening Accountable Governance.” It also seeks to facilitate the transition between ASF’s current and upcoming administrations by providing a roadmap for the effective implementation of the SNF and incidentally, the SNA and SNT, as well as of the OECD recommendations developed for that purpose in the phase 1 report.

In March 2015, the OECD was invited to undertake a comprehensive assessment of Mexico’s National Auditing System, which was published in January 2017. This assessment provided a number of recommendations that are subdivided in three different categories, i.e. (1) Designing a strategy built on the strengths of the SNF; (2) National and sub-national dimensions of auditing in Mexico; and (3) Mexico’s supreme audit institution as a catalyst for better governance.

The SNF is the result of major governance reforms by the Mexican Congress to enhance public sector accountability, integrity and transparency. The SNF’s legal authority is grounded in recent constitutional amendments and secondary legislation, including the General Law on the National Anti-Corruption System (e.g. Ley General del Sistema Nacional Anticorrupción, or LGSN), and the General Law on Administrative Responsibilities (Ley General de Responsabilidades Administrativas, or LGRA).

Little time has passed since recent reforms started to be implemented, and since the issuance of the OECD phase 1 report. In this context, while it may be early to fully assess Mexico’s progress in implementing the SNF, this report first seeks to acknowledge the progress made by Mexico towards the implementation of OECD’s recommendations from the phase 1 report. In addition, it also seeks to provide further strategic foresight to support and guide Mexico in further implementing OECD recommendations on the SNF.
This means that an effective implementation of the SNF will require close coordination with relevant authorities responsible for administering the SNA and the SNT, among others.

This report is structured according to the recommendations of the phase 1 report that apply to ASF (chapter 2) or to SNF institutions more generally (chapter 3). Moreover, each chapter begins by analysing progress in relation with higher-level strategic governance considerations, before turning to more operational considerations for both ASF and the SNF.
2. ASF’s central role in providing evidence and assurance for effective implementation of Mexico’s Anti-Corruption Reforms

ASF plays a central role in providing evidence, analysis and assurance to ensure the achievement of the SNF’s goals and it has already achieved meaningful progress at the strategic level since the launch of Mexico’s governance reforms. ASF’s progress includes modifying the format of its reports to the Congress in order to include specific recommendations for legislative work that are less technical and more easily understood. These recommendations are based on ASF’s analysis and auditing of the national budget as well as specific issues, such as public procurement and infrastructure, and facilitate the streamlining of their findings into broader governance considerations for the government.

In addition, recent constitutional reforms have divided ASF’s year-end reporting process into three reports. These reports include analysis and recommendations regarding the implementation of the national budget as well as other issues, such as potential overlap between programmes. As a result of these additional reports, ASF officials noted an increased public awareness of ASF’s role and impact, mainly through a more consistent reference of its work in mainstream media.

However, ASF faces ongoing challenges at the operational level. For instance, ASF has yet to formalise key structures, including investigative and substantiation areas, following the coming into force of the LGRA. Establishing this division and building its capacity is made more challenging by the fact that in alignment with the LGRA and the SNA, this effort needs to be coordinated with the Federal Tribunal of Administrative Justice (Tribunal Federal de Justicia Administrativa) and the Special Prosecutor for Anti-Corruption, both created as part of recent reforms. In addition, ASF could still take steps to refine its audit programming in order to effectively carry out its expanded mandate and minimise the risk of overextension due to an unmanageable number of audits.

Despite the institutional strength that has cushioned the ASF’s ongoing transition process for selecting a new Auditor General, at the time of writing this report, there are challenges for advancing several of the OECD recommendations, particularly those that are strategic or have long-term implications. Nonetheless, the recommendations included in this chapter are based on objective good practices that are aligned with international standards, while leaving room to ASF’s next leadership to define in detail how and according to which timeframe each recommendation may be implemented.

This chapter assesses the progress made in the implementation of the phase 1 recommendations that applied specifically to ASF. Subsection 2.1 assesses the progress on the recommendations that relate to ASF’s strategic approach for enhancing its effectiveness for the fulfilment of its mandate and the impact of its recommendations, while subsection 2.2 assesses progress on recommendations relating to how ASF will fulfil its duties and responsibilities at the operational level.
2. Strategically addressing systemic deficiencies as a way to improve public governance

Some of the recommendations of the OECD phase 1 report advised ASF to strengthen its strategic approach in order to better address systemic deficiencies in Mexico’s overall public governance framework. For example, the OECD recommended that ASF consider maximising the utility for Congress of its June, October and February audit reports; leveraging its comparative advantage arising from the SNT to further transparency and information sharing among Mexican audit institutions; and increasing synergies with its forensic audit capacity to better identify and address systemic gaps in Mexico’s public governance framework.

In response to these observations, ASF achieved significant progress at the strategic and managerial levels by undertaking to refine its audit programming processes and streamlining its audit recommendations to enhance uptake by Congress. ASF has also started to further draw from forensic audits to reinforce ASF’s gap analysis of systemic and structural vulnerabilities in internal control and risk management in the public sector.

ASF’s audit programming criteria may still be further refined with a view to devote less emphasis on financial audit. ASF may also lead further efforts to strengthen information sharing among audit institutions to enhance audit effectiveness and integrating forensic audit outcomes to identify and systematically improve control and risk management issues within specific sectors or ministries.

2.1.1. ASF could focus its audits early in the fiscal year on high-risk programmes, as well as programme performance, in order to increase the value of reports for the budgetary decision-making process

Relevant parties responsible for implementation:

ASF

Summary of issues identified in the phase 1 report

SAIs should publish reports that are timely and relevant for the budgetary cycle (OECD, 2015). Recent constitutional reforms have divided ASF’s year-end reporting process into three reports, two of which ASF will submit to Congress at the end of June and October following the audited fiscal year. These two intermediate reports are meant to divide the current year-end report into three instalments, including a third report that ASF will continue to submit in February, 14 months after the end of the audited fiscal year.

These reforms are a positive step toward improving the timeliness of ASF’s reporting, but on their own, they do not equate to timeliness or utility value for decision makers. While the June report provides the Congress at least four months to consider the audit findings before it passes the Revenue Act in October and approves the budget in November, ASF’s second report, delivered on the 31 October, offers the Congress little time to understand the report and use it for budgetary decision making.
Therefore, when determining its audit priorities during the year, the OECD suggested that ASF consider how it can maximise the utility of the June report for the Congress and its budget deliberations. This could include prioritisation of high-risk areas for audits conducted early in the fiscal year, as well as performance audits that focus on financial and operational performance. This implies that the June, October and February reports would serve different purposes as inputs for the Congress, based on the budgetary cycle as well as legislative initiatives.

**Progress made in the implementation of the recommendation and areas for improvement**

ASF could continue to take actions to adapt its audit programming, planning and execution to maximise the usefulness of its recommendations to the Congress for making budgetary decisions and assess programme performance. At the time of drafting this report, ASF’s approach for increasing the usefulness of its reports, particularly the new reports it now issues in June and October, was in the early planning stages. For instance, ASF is in the general process of refining the selection of audits that will be included in the June and October reports, including consideration as to whether and how ASF will incorporate programme performance and high risk criteria into its audit programming. Currently, as indicated in its first June report to the Congress, ASF’s approach for selecting audits of value for the Congress in its new reports appears to be based on limited criteria.

In June 2017, ASF published its first of the three reports called, "Considerations for Legislative Work" (Consideraciones para la labor legislativa). The report includes a chapter with recommendations for the Chamber of Deputies to consider when discussing budget allocations. The report effectively describes the added value of the ASF's audits for decision making, and clearly highlights recommendations for the Chamber of Deputies to consider across various sectors. It also suggests key areas where the Chamber of Deputies could focus their attention when determining the budget for 2018, based on the results of performance audits in seven areas: (1) upper secondary education, (2) higher education, (3) urban development, (4) social protection for vulnerable groups (5) science, technology and innovation (6) labour issues and (7) water management (ASF 2017). The report makes specific recommendations on potential changes to laws, overlapping programmes and resource allocation, among other areas.

ASF could consider expanding the criteria it uses to select audit reports that are useful for congressional decision making, including criteria that focus on programme performance. According to officials, ASF selected the audits underlying the recommendations based on the amount of money allocated to the audited program in previous years. ASF could continue to build on this criterion, in consultation with Congress. This would help to ensure that the June, October and February reports fulfil a specific objective aligned with its value and timing for Congressional decision making (e.g. adoption of the Revenue Act and a budget) and understanding whether funded governments programmes are achieving their stated goals and objectives.

ASF officials noted that the report increases its media profile and its impact is more evident. Nonetheless, officials also said that there is a need to create positive incentives in the Congress in order to use the reports for legislating or making budgetary decisions, and it appears that the reports are often used for political purposes when addressing the media. This highlights the limited uptake of audit reports and echoes the breakdown in accountability the OECD highlighted in the phase 1 report, whereby the Congress has yet
to provide an opinion on the national accounts for 8 out of the last 14 years. Even after reforms, as well as ASF’s own initiatives, to improve the timeliness and relevance of ASF’s reports, there are limitations to the uptake of ASF’s work that reflect the lack of incentives for the Congress to use the reports for decision making.

To advance these efforts, ASF can further define its audit programming, including additional criteria as mentioned, to ensure that the information the Congress receives in subsequent reports is indeed relevant and timely. The auditing environment changes frequently and rapidly, as does the political environment, and therefore ASF must continue to monitor and adapt its audit programming, as appropriate (see Recommendation 2.2.3 for further discussion on ASF’s risk-based audit programming). In addition, as part of this process, ASF could further clarify in its reports to the Congress, including the Considerations for Legislative Work, how it identifies the existing audits as priorities. Specifically, ASF could provide additional details in the report with regards to its criteria and selection process for the audits it decides to include in each report. This would further help to put the report into context, and educate the Congress on ASF’s processes and value.

**Summary of proposals for further action**

- ASF could further adapt its audit programming, planning and execution to maximise the usefulness of its recommendations to the Congress for making budgetary decisions and assess programme performance.
- ASF could expand its audit selection criteria with a view to focusing more on programme performance.
- ASF could ensure audit programming criteria are updated regularly to ensure the information received by Congress from ASF reporting is relevant and timely.
- ASF could clarify, in each of its reports to Congress, the methodology used for the selection of audits.

**2.1.2. ASF could apply its comparative advantage in auditing to lead government-wide studies and audits of the implementation of the National Transparency System’s strategy to strengthen transparency**

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**Summary of issues identified in the phase 1 report**

ASF has a comparative advantage as Mexico’s SAI to look across government at cross-cutting issues, and through audits and evaluations, provide a systemic perspective on the functioning of government. ASF’s mandate and legal authority to access information and data within and outside of government, coupled with its audit expertise, underpin this comparative advantage. ASF capitalise on this advantage by conducting audits and evaluations of the implementation of the SNT, which was established as part of recent constitutional reforms. These audits and evaluations would support the goals of recent reforms to strengthen transparency in Mexico.
Moreover, audits of the SNT could act as a platform for involving and co-ordinating with state-level audit institutions to ensure effective implementation of transparency objectives at all levels of government. The SAIs of Brazil, Korea, the United Kingdom and the United States, as described in the Phase 1 report, all offer illustrative examples of such audits that look at government-wide transparency, and are similar to ASF’s own reviews of government-wide integrity systems. In conducting audits or evaluations of the SNT, the OECD highlighted the need for ASF to remain vigilant in monitoring potential independence issues, as it is an active member of the SNT, which is responsible for improving the transparency policies and mechanisms in government.

**Progress made in the implementation of the recommendation and areas for improvement**

In interviews, ASF officials recognised the institution’s comparative advantage, but they highlighted difficulties in improving information sharing and linkages between the SNT and SNF. For instance, the ASF chairs the Accountability Committee, one of eleven committees within the SNT that involve national and subnational government entities, as well as non-governmental institutions. In this role, officials said they had requested information from transparency organisations that would be useful inputs for audits; however, ASF has had little success in encouraging better sharing of information. According to ASF officials, many SNT members have yet to see the value and embrace the linkages between the SNF and SNT.

ASF intends to design awareness-raising campaigns to improve the flow of information and co-ordination between the SNT, SNF and the SNA. In addition, ASF expects that the issues raised by the SNA and SNT will have an effect on its strategic planning and audit programming, which will be subject to further revisions in 2018. At the time of writing this report, it was too early to assess this impact concretely. ASF is also mindful of not only drawing from the work of the three systems to fulfil its own mandate, but also to provide SNA and SNT with inputs that stemmed from its audit results.

**Summary of proposals for further action**

- ASF could continue promoting good practices for the sharing of information among audit institutions as recommended in OECD’s phase 1 report.

**2.1.3. ASF could conduct, to complement its forensic audits and investigations, evaluations of systemic deficiencies in internal control and risk management to improve broader governance functions**

*Relevant parties responsible for implementation:*

ASF

**Summary of issues identified in the phase 1 report**

The 2016 anti-corruption reforms granted new authorities to the ASF to conduct investigations and substantiate "grave" administrative irregularities (Government of Mexico, 2016b). The Law on the Accountability and Submission of the Accounts of the
Federation (Ley de Fiscalización y Rendición de Cuentas de la Federación, or LFRCF), approved in July 2016, required ASF to establish two separate departments for carrying out these duties, including one for conducting investigations and one for substantiation of cases (Government of Mexico, 2016b). In addition, the LFRCF requires ASF to deliver a General Report to the Chamber of Deputies, highlighting key risk areas in the public sector and recommendations to modify the legal frameworks to enhance audited entities’ financial management and performance (LFRCF, Article 33 and 34).

Since 2009, ASF has conducted forensic audits to identify fraud and corruption while auditing the year-end account. ASF officials noted that these audits focus on identifying potential wrongdoing related to individual cases, and they are not meant to examine vulnerabilities in the internal control system within a government entity. The latter are reviews that ASF conducts on an ad-hoc basis. To further develop this activity, the OECD recommended that the ASF take a more strategic approach to conducting systemic reviews. In particular, the OECD recommend that ASF consider creating synergies and between its forensic audit, investigative and audit function to advance reviews of systemic issues and weaknesses in the government’s internal control activities and risk management. For instance, the ASF could use the results of investigations and forensic audits to identify specific internal control weaknesses, and develop performance audits to further assess and suggest improvements to prevention mechanisms.

**Progress made in the implementation of the recommendation and areas for improvement**

Over the last three ASF annual general reports, ASF has submitted broad analyses to legislative bodies on the systemic or structural vulnerabilities across the Mexican public sector. Some of the information in these reports is based on ASF’s forensic audits, such as the case on procurement between public entities. The audit results on this matter were used to identify a high-risk area due to the existence of fraud practices when public universities are hired to provide goods and services, which are not part of their core business. In developing the messages in that report, the ASF considered the potential vulnerabilities in internal control or risk management that brought about the observed irregularities. Further to this successful case, at the time of writing this report, ASF had yet to consider whether it would take actions to create synergies between its forensic audits, investigations and its ad hoc reviews of internal control and risk management activities in the Mexican government.

In addition, to help develop such findings, ASF could also consider improving co-operation and co-ordination between forensic audit teams and other audit departments in order to identify and systematically improve control and risk management issues within specific sectors or ministries. The “systemic” nature of such reviews could mean they focus on multiple government entities, or they could consider the ministry or programme level. Moreover, these "root cause" reviews could complement ASF’s new investigative work in that individual cases of wrongdoing can serve as powerful, real-world examples to illustrate the actual effect of vulnerabilities within an internal control system. Few SAIs conduct such work.

**Summary of proposals for further action**

- ASF could consider elaborating on potential systemic vulnerabilities in internal control or risk management that allowed specific fraud or corruption cases to occur, and suggest improvements, as required by the LFRCF.
• ASF could also consider improving co-operation and co-ordination between forensic audit teams and other audit departments in order to identify and systematically improve control and risk management issues within specific sectors or ministries.

2.2. Reinforcing ASF operations for the fulfilment of its new duties under the SNF, the SNA and the SNT

Additional ASF-related recommendations from the phase 1 report touched on the reinforcement of ASF’s operations in order to effectively fulfil its newly delegated duties under the SNF, the SNA and the SNT. These recommendations touched on a large range of areas that are either closer or further away from ASF’s core audit activities. For example, the OECD advised ASF to assess each SNF institution’s strengths and weaknesses and to align their strategic work plans to create synergies, avoid duplication of work and activities and articulate a clear vision and objectives in relation with their audit activities, including for forensic and investigative functions.

In addition, the OECD encouraged ASF to review the criteria underlying its risk-based audit programming in order to increase audit diversity, and to strategically integrate early-audit planning and real-time audit into its audit programming and consider how these feed into ASF’s own risk assessments. Finally, the OECD advised ASF to enhance its quality control procedures and to develop a comprehensive communication strategy to enhance greater uptake of ASF’s audits recommendations.

In response to OECD recommendations, ASF created new structures and procedures to help carry out its extended mandate, including additional bodies for the investigation and substantiation of cases, to monitor federal spending and to ensure better coordination under the SNA. Officials mentioned ASF’s audit programming was strengthened by adding more information on federal funds transferred to each state, but most revisions to the audit programming methodology will be undertaken after the auditing of the 2016 public accounts. The advancement of the requirement to complete ASF’s PAAF from May to December will require ASF to use its early audit planning authority to request information from auditees during the fiscal year to finalise its audit programming within mandated time lines. ASF has established a new internal audit unit that will be responsible, among others, to strengthen quality processes, and these processes are currently being revised in order to better align with ASF’s new mandate. Finally, ASF has also undertaken to engage Congress on a systematic basis with straightforward information, in order to enhance the integration of its recommendations in legislative work.

However, ASF has yet to clearly define how it will fulfil many of its duties and responsibilities at the operational level. Considering that ASF’s mandate has significantly expanded following recent governance reforms in Mexico, recommendations under section 2.2 generally seek to provide additional guidance to ASF about how it could further define new priorities for its activities that focus not only on its role in the SNF, but also under the SNA and the SNT.

For instance, ASF has yet to undertake a systematic review of its overall allocation of human, technical and financial resources, and to devise a vision and strategic objectives for carrying out its investigative role, as a prerequisite for finalising the establishment of its internal structures. ASF could also consider undertaking a comprehensive overview of its audit universe to understand each public entity’s objectives and vulnerabilities, and refine its criteria underlying audit programming. Further integration of early audit
planning and real-time audit may be necessary for a more comprehensive audit programming, and its quality control and communication strategies may be further strengthened to ensure accessibility and relevance to Congress and the general public.

2.2.1. To ensure its ability to effectively balance and respond to new responsibilities, ASF could conduct an in-depth review of key elements of its strategic and operational agility, including an assessment of its strategic sensitivity, resource flexibility and leadership unity

| Relevant parties responsible for implementation: | ASF |

Summary of issues identified in the phase 1 report

To meet the expectations in relation with ASF’s new audit work under the SNF, the SNA and the SNT, the OECD advised ASF to reconsider its strategic sensitivity, resource flexibility and leadership unity. The OECD also recommended that ASF assesses its strengths and weaknesses, and that of other SNF members, in order to create synergies, avoid duplication of work as much as possible and take advantage of everyone’s comparative advantage. Maintaining strategic and operational agility in an evolving environment means adapting resources to fulfil its new mandate and taking innovative approaches in light of constraints. It also highlights the need for ASF to strategically consider opportunities to build its internal capacity in preparation for effectively responding to its new mandate.

Along the 2007 Building Capacity in Supreme Audit Institutions guide elaborated by the Capacity-Building Committee of the International Organisation of Supreme Audit Institution (INTOSAI), the OECD also recommended that ASF avoids assessing capacity on an ad hoc basis, and use sequential steps for developing capacity. INTOSAI’s sequential steps are under review and subject to public consultations currently include the following (Capacity-Building Committee of the International Organisation of Supreme Audit Institutions, 2017):

1. **Assess:** Systematically assess the current state of ASF’s capacity, and its strengths and weaknesses.
2. **Decide:** Decide why it is seeking to strengthen capacity and what barriers or constraints it faces.
3. **Determine:** Determine what additional capacity at the institutional, organisational and professional levels ASF seeks to build, the resources ASF will need and the outcomes it expects to achieve.
4. **Develop:** Develop a strategy for the delivery of increased capacity and related outcomes without interfering with the delivery of its remit.
5. **Implement:** Implement the strategy for capacity building.
6. **Evaluate:** Conducting impact evaluations of the changes and the outcomes achieved.
7. **Improve:** Sustain the changes and develop a new strategy to build on what has been achieved.
Progress made in the implementation of the recommendation and areas for improvement

Despite the fact that ASF created new structures and procedures to carry out its extended mandate, it has not yet designed and implemented an appropriate methodology that allows moving away from an *ad hoc* approach to assess its own capacity. As such, it is still vulnerable to the risk of overextending its own resources.

ASF’s newly created structures and procedures to accomplish its expanded mandate seek to strengthen its capacities in relation with investigation, monitoring of federal funds and implementing the SNA. The Legal Affairs Department now includes two additional units that are responsible for the investigation duties and the substantiation of cases. A new General Directorate was established to strengthen ASF’s capacity to monitor federal spending as its audit mandate has been extended not only to cover federal funds that are earmarked for specific purposes, but also federal funds that may be spent at the discretion of federal states. Additionally, the Technical Secretariat now includes a new office responsible for following-up the ASF’s activities in relation with the SNA. Finally, in order to institutionalize the recent overhaul of ASF’s structures, the organization has reformed its organizational manual and its internal regulations (*Reglamento interno*).

However, ASF did not yet assess how the allocation of resources to its newly delegated duties under the SNF will impact its ability to carry out its traditional activities. ASF plans on undertaking such an assessment in 2018. An additional pending strategic action is the assessment of ASF’s quality control systems. As a result, ASF is working on the implementation of this OECD’s phase 1 recommendation, which requires a full assessment of ASF’s strategic sensitivity, resource flexibility and leadership unity.

The OECD recommends that ASF undertake a systematic review of the efficiency of its overall allocation of human, financial and technical resources as soon as possible, in line not only with the recommendation of the phase 1 report, but also of INTOSAI’s guidance for improving the performance of SAIs. An assessment of ASF’s allocation of resources could be conducted on an annual basis afterwards, to ensure ASF can adapt to its ever changing auditing environment. Such a review would also contribute to implement, within ASF, OECD’s phase 1 recommendation to further define SNF institutions’ short-, medium-, and long-term strategic priorities and activities with a focus on its members’ primary strengths in auditing.

This assessment is made more urgent by the fact that there has not been considered additional financial resources for the creation of new structures and procedures mandated by the SNA. As a result, ASF’s audit expertise runs a significant risk of overextension considering the broadening of the scope of its audit responsibilities, its duty to submit audit reports every four months, the capacity of the institution to conduct real-time audits and to review Public Accounts beyond the preceding year, and an extended audit timeframe, among others.

The ASF has pointed out that, when defining its new strategic priorities, it will be necessary to carry out a full assessment on the institution strategic sensitivity, results flexibility and leadership unity.

Summary of proposals for further action

- ASF could undertake a systematic review of the efficiency of its overall allocation of human, financial and technical resources as soon as possible, in line with the
recommendation of the phase 1 report and of INTOSAI’s guidance for improving the performance of SAIs.

2.2.2. ASF could communicate a clear vision, objectives and procedures with regard to its forensic audit and new investigative functions that emphasize its comparative advantage in auditing

Relevant party responsible for implementation:
ASF

Summary of issues identified in the phase 1 report
In addition to the new investigative authorities for ASF, as previously discussed, the 2016 anti-corruption reforms changed the legal and institutional landscape for combating corruption in Mexico. Specifically, they created the Special Prosecutor for Anti-Corruption, which is responsible for investigating and adjudicating cases of potential criminal offences (Government of Mexico, 2016a). Officials said ASF will support the criminal cases of the Special Prosecutor with information and evidence obtained during the course of its audits.

Other institutions play critical roles, highlighting the complex multi-institutional approach to combating corruption and fraud in Mexico following the 2016 reforms. The Federal Tribunal of Administrative Justice (Tribunal Federal de Justicia Administrativa), based on the evidence submitted by ASF, is responsible for adjudicating the cases and making decisions as to whether they warrant administrative sanctions. Moreover, the ministries and the Organs of Internal Control, as well as their counterparts in the states, will investigate and substantiate administrative offenses that are “not grave,” (i.e. faltas administrativas no graves) (Government of Mexico, 2016a).

For ASF, given its new authorities and the need to co-ordinate with the aforementioned actors above, it is critical that it has a clear vision, strategy and objectives for carrying out its investigative activities and forensic audits. ASF’s current strategic plan for 2011 to 2017 generally states that forensic auditing is an area it intends to strengthen, but its vision and objectives behind this role remain underdeveloped. Moreover, ASF’s current strategic plan did not reflect its new authority to substantiate cases and investigate administrative wrongdoing. Therefore, the OECD recommended that ASF update its strategic plan to reflect newly-delegated duties, and articulate a clear vision and objectives related to its forensic audit and investigative functions. Moreover, it was advised that the ASF and others could develop procedures to ensure effective coherence and co-ordination with other institutions with investigative roles, including the Federal Tribunal of Administrative Justice and the Federal Prosecutor for Anti-Corruption.

Progress made in the implementation of the recommendation
The LGRA, while endorsed in July 2016, entered into force a year later in July 2017. At the time of writing this report, the ASF Governing Board was in the process of developing its vision, objectives and procedures. In addition, the Congress was in the process of making appointments to the Federal Tribunal of Administrative Justice and the
Special Prosecutor for Anti-Corruption, which ASF officials highlighted as a critical first step in defining areas of co-operation and co-ordination. Nonetheless, ASF has taken steps to pre-emptively improve co-ordination. For instance, ASF signed a co-operation agreement with the PGR in October 2017 to improve co-ordination with the Attorney General’s Office (Procuraduría General de la República, or PGR). The agreement aimed to reinforce ASF’s relationship with the PGR and ensure effective reporting and co-ordination to support the prosecution of alleged irregularities found during the ASF’s audits.

Progress on strategic planning, including creating a vision, objectives and procedures related to forensic auditing and investigative activities, has been gradual and is ongoing at the time of this review. In the past, ASF has conducted forensic audits within its Special Financial Compliance Auditor Division and under the leadership of the Director General of Forensic Audits (DGFA). ASF officials noted that they are considering to merge forensic audits and investigative capacities so that the ASF can maximize the potentiality of its new mandate, understanding its new role within the SNA.

Further defining its vision and strategic objectives for carrying out its investigative role would help ASF to make such decisions. As discussed, ASF’s comparative advantage is in auditing and evaluating of government programmes, among other non-investigative activities, which includes a fix capacity to conduct forensic audits. This role is reinforced in a number of international standards for supreme audit institutions that highlight prevention activities. For instance, ISSAI 12 on the Value and Benefits of SAIs notes that: "SAIs should evaluate changing and emerging risks in the audit environment and respond to these in a timely manner, for example by promoting mechanisms to address financial impropriety, fraud and corruption.”

Keeping in mind this comparative advantage when devising its strategic vision and objectives could have practical implications for decision on procedures, structure and resource investments for investigative activities. Moreover, as indicated in the phase 1 report, there are numerous other considerations for ASF as it defines its approach to fulfilling its investigative mandate. For example, the OECD suggested that ASF consider factors that would affect capacity development for specialised investigative skills, as well as consider how to minimise strategic, operational and reputational risks that can come with conducting investigations. The latter can have positive and negative spill over effects on audits and the perceived credibility of ASF’s recommendations. In addition, investigations can be resource-intensive and protracted.

**Summary of proposals for further action**

- ASF could further define its vision and strategic objectives for carrying out its investigative role would help ASF make informed decisions about the structure of its forensic audit and investigation capacities.
- ASF could consider factors that would affect capacity development for specialised investigative skills, as well as how to minimise strategic, operational and reputational risks that can come with conducting investigations while building its investigative capacity.

**2.2.3. ASF could adapt its risk-based audit programming to further prioritise how it allocates resources and reduce the volume of audits conducted**
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Relevant parties responsible for implementation:
ASF

Summary of issues identified in the phase 1 report

An effective audit programming strategy significantly contributes to reinforce an audit institution’s strategic and operational agility. Therefore, ASF’s audit programming will have an important impact on how it will adapt to the higher volume of audits arising from its expanded mandate. The ASF Annual Programme of Audits for Public Account (PAAF) framework is a risk-based methodological framework that ASF uses to identify and prioritise the audits it will conduct during the next year. It includes quantitative and qualitative methodologies for scoring risks based on 16 risk factors and makes risk-based comparisons to prioritise work. ASF’s risk-based approach to programming is robust, documented and allows for strategic prioritisation of resources.

The OECD noted during the phase 1 review that the ASF’s newly mandated responsibilities, coupled with the high volume of audits it already conducts, demonstrates a need for refining its risk-based audit programming. Moreover, the initial review suggested that ASF’s portfolio is heavily weighted towards financial audits despite some performance elements, and that a review of the criteria underlying risk-based audit programming could help to diversify the types of audits it conducts. In turn, this could lead to a more complete picture of the effectiveness, efficiency, and economy of government. For example, risk criteria that place a high value on the impact of performance or forensic audit could be considered during the review of criteria and potentially given more weight when revising the criteria.

Progress made in the implementation of the recommendation and areas for improvement

ASF routinely adapts its risk-based audit programming methodology in response to newly delegated responsibilities, but according to officials, most of the revisions will be undertaken after it has completed the auditing on the 2016 public accounts. ASF maintains that it has adapted its risk-based audit programming by adding more detailed financial information about the transfer share of funds that is allocated to each state to better inform its audit programming and align it with its new scrutiny powers over the spending of federal funds. ASF officials said their approach to audit programming is flexible, and can be updated on an ongoing basis to reflect new risks, trends or changes in its mandate.

Nevertheless, ASF acknowledges that one of its priorities following the completion of the auditing of the 2016 public accounts is the streamlining of its risk-based audit programming in order to take into account its new responsibilities delegated by the LGRA. It is paramount that ASF undertake a reform of its audit programming as soon as possible to effectively carry out its extended mandate. As discussed under recommendation 2.2.1, when an institution is being delegated a new mandate, it must conduct an in-depth reflexion about how it will achieve its new mission, strategy and objectives to successfully fulfil these new responsibilities. For ASF, this may require defining audit programming over a few years’ time period, including translating its audit programming into precise, transparent and measurable objectives.
To optimise risk-based audit programming for financial, compliance, performance and forensic audits, SAIs may prepare a general overview of the functioning of the executive branch to appropriately define its new risk environment. Indeed, many countries organise their risk-based audit programming based on the different types of institutions included in the audit portfolio. An integrated approach, focusing on both financial and performance risks that occur in different public institutions, may facilitate the allocation of audit capacity and resources between financial and performance audit (Seeuws, 2016). Operational risks tend to vary substantially from one public institution to another, and thus require specialised knowledge of all audited entities.

An adaptation of ASF’s risk-based audit programming will become increasingly urgent as a result of the steady increase in the number of audits that ASF has to conduct to fulfil its responsibilities since 2013. Moreover, this number will continue to increase as ASF will need to carry out additional responsibilities in relation with the auditing of the 2017 public accounts due to the recent entry into force of the LGRA. ASF officials are aware of the risks arising from undertaking an unmanageable number of audits, and it reported a moderate increase in the number of audits from 2015 to 2016. For the auditing on the 2015 public accounts, ASF carried out 1,643 audits, while 1,863 audits were scheduled for the 2016 Public Accounts. There was an increase of 220 audits over the previous year, including 204 audits that corresponded to federal spending areas.

**Summary of proposals for further action**

- ASF could conduct a comprehensive overview of its audit universe that will allow for a deep understanding of each public agency’s objectives, as well as of their vulnerable processes such as IT, human resources and procurement. This would help mapping operational risks, which tend to vary substantially from one public institution to another, and thus require specialised knowledge of all audited entities.
- ASF could modify its criteria for the selection of audits to include additional elements that place a high value on the impact of performance or forensic audits, both of which have represented a small portion of ASF’s audit portfolio since 2010.

2.2.4. **ASF could help ensure the timeliness and uptake of its work in Congress by effectively aligning its new authorities, such as early audit planning and conducting real-time audits, with its traditional audit programming**

**Relevant parties responsible for implementation:**

ASF / Congress

**Summary of issues identified in the phase 1 report**

Recent constitutional reforms allow ASF to be more proactive about its audit planning. ASF can now start its audit planning and implementation the month immediately following the end of the fiscal year to be audited (January) as opposed to the reception of the public accounts, i.e. no later than four months after the end of the fiscal year to be audited (30 April). The reforms also allow ASF to request information from auditees during the fiscal year, in order to begin audit planning right after the fiscal year. In
addition, as a separate issue that can affect ASF’s traditional audit programming, recent reforms also allow ASF to conduct “real-time” audits over the execution of the budget in the current fiscal year, which was previously forbidden based on the principles of posteriority and annuity. Such real-time audits are triggered by reports or complaints and require ASF to reorient its work outside of the established audit programme.

The OECD recommended that ASF determine how it was going to strategically use these new authorities, such as how to integrate early audit planning into its traditional audit programming and implementation, if at all. This alignment was previously complicated by the fact that ASF’s Annual Programme of Audits for the Public Account (PAAF) needed to be approved in May, but that early audit planning needed to be finalised for January in each fiscal year. The OECD recommended that ASF give further thought on how early audit planning would be more aligned with the PAAF, including the development of coherent timelines for both audit programming and early audit planning.

In addition, the OECD had advised ASF to consider how real-time audits will be used to complement and add value to existing audit programming, given the already high audit volume carried out under the PAAF, as well as how real-time audits could feed into ASF’s own risk assessments. Real-time audits are triggered by complaints, and therefore it is difficult to predict their impact on traditional audit programming.

Progress made in the implementation of the recommendation and areas for improvement

The requirement to complete ASF’s PAAF has been advanced from May in the following fiscal year to December in the same fiscal year the PAAF is intended to apply. For instance, the audit plan for the 2017 Public Account must be presented at the end of December 2017, as opposed to May 2018. This will require ASF to effectively integrate its early audit planning into its overall audit programming. Specifically, ASF will have to request information from auditees during the fiscal year in order to finalise its audit programming within the mandated timelines. This will help to ensure that ASF begins audits sooner after a specific risk has been identified, therefore increasing the relevance and uptake of its audit recommendations. ASF has also updated its audit planning methodology by expanding the number of potential auditees in accordance with its new mandate.

These changes to the PAAF may promote the uptake of ASF’s work, yet ASF still needs to define a holistic, strategic approach as to how it could tailor its policies and guidance to ensure the effective implementation of both its early audit planning and real-time audits. ASF has indicated that it will issue an updated policy on audit and reporting requirements in 2018. This policy may further integrate early audit planning with the PAAF, and provide guidance as to how real-time audits may provide a greater impact on overall audit programming. While developing this policy, ASF could consider clarifying how it will operationalise early audit planning and real-time audits, and any linkages between the two. For instance, ASF could further define whether information collected during the course of early-audit programming would trigger real-time audits, and if so, the impact of such a policy on resources. In addition to specific disclosures of potential misconduct, basing real-time audits on information gathered through early audit planning would constitute a concrete example as to how ASF’s new authorities may add value to existing audit programming and risk assessments.

While ASF officials indicated the impact of real-time audits on overall audit programming, including available resources, is currently low, ASF officials expect that
real-time audits may grow in number and importance in the future due to increased awareness about the SNF and ASF’s activities and mandate. An expansion of real-time audits could require ASF to invest further efforts in defining and making projections as to how real-time audits will impact its audit programming. ASF has received 56 real-time audit requests as of February 2018. The law requires that a technical and legal opinion be submitted to the Auditor General in order to define the appropriateness and the merit of launching a real-time audit based on the report. So far, there have been six cases which were considered worthy of an audit but this excludes the 2016 Public Account that has just been audited and whose reports have just been presented before the Chamber of Deputies.

Summary of proposals for further action

- ASF could further clarify its policies for early audit planning and real-time audits, including whether it will conduct real-time audits based on the information gathered through early audit planning.
- ASF could invest further efforts in defining, tracking and making projections as to how real-time audits will impact its audit programming.

2.2.5. Moreover, ASF could assess its internal quality control processes in order to ensure the relevance and quality of its products for Congress amid additional reporting requirements

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Summary of issues identified in the phase 1 report

Some users of ASF’s work interviewed for the phase 1 report expressed concerns about the usefulness of some of ASF’s reports. For instance, interviewees maintained that the audit reports included overly technical language, and were organised in a way that made it difficult to analyse them. Moreover, a representative of a Congressional committee suggested that ASF’s audits were sometimes too narrow to be useful to analyse the performance of broader programmes.

To potentially address concerns about the utility value of its work, the OECD suggested ASF assess its current processes and procedures for maintaining quality control, and anticipate potential risks to quality that might arise in order to meet new reporting demands. For example, in addition to peer reviews and beyond surveys of the traditional users of its work, the OECD advised the ASF to identify potential changes to its auditing programming in order to enhance the relevance of its work for Congress. More specifically, the OECD recommended that ASF consider adapting its audit proposal form to require teams to indicate the Congressional committees they believe would be interested in the results of the audits. This would encourage teams to consider potential users of the audit results, and the scope of information relevant to inform legislative initiatives or budget decisions. This justification could be used to help facilitate the discussion and selection phase during audit programming. Moreover, ASF could then
compile this information to inform Congress of its plans for audits that are relevant to the themes and challenges facing individual committees.

*Progress made in the implementation of the recommendation and areas for improvement*

ASF has made a significant commitment to step up its quality control processes to ensure the relevance of its work for its traditional users. In March 2017, it has established an internal audit unit to ensure the quality and robustness of new quality control processes. This unit will also be the main contributor to ASF’s main strategic plan for the upcoming ASF administration, including preparing the hand-over process to the next Auditor General. ASF has expressed commitment to strengthen ASF’s control environment, which will provide specific attention to the follow-up of ASF’s internal audits.

ASF’s quality control processes for the report on the auditing of public accounts are currently being revised in order to better align with ASF’s new mandate. ASF will implement new processes once the newly delegated investigative and substantiation responsibilities come into force, which is in 2018 for the auditing of the 2017 public accounts.

ASF expects to conduct assessments in 2018 about how its reports could be made more useful for Congress, as well as to determine the root causes of the lack of clarity and usefulness of the reports that have been identified in OECD’s phase 1 report. While updating these processes, ASF and Congress may wish to ensure consideration is given to simplify ASF’s report language to make it more accessible to the general public and non-expert stakeholders, as provided in the phase 1 report. Moreover, the ASF could give consideration for the upcoming policy on individual audit reports to modify its audit objectives and research questions in order to align the scope and quality of its products with the needs of Congress. ASF could enhance its use of the outcomes of programme performance audits in order to strengthen the quality and methodology of other audits carried out by ASF. For example, ASF’s policy on audit reports could have objectives with appropriately defined indicators in order to measure the performance and uptake of its audit reports.

Finally, ASF would benefit from giving further consideration to link its audit proposals to their potential utility for Congressional committees, as recommended by the phase 1 report.

*Summary of proposals for further action*

- ASF could consider further simplifying ASF’s report language to make it more accessible to the general public and non-expert stakeholders.
- ASF could consider upgrading its auditing objectives and research questions in line with the Congress’s interests, including the relevance for the work of Congress legislative committees.
- ASF could use lessons learnt and findings from performance audits to strengthen the quality and methodology of ASF audits, including the use of clearly defined objectives and indicators to measure the impact of audit reports.
2.2.6. ASF and state audit institutions could enhance outreach, communication strategies and trainings to improve the relevance and impact of their work among key stakeholders, including Congress, its committees, auditees and citizens

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<td>ASF, other SNF institutions</td>
</tr>
</tbody>
</table>

Summary of issues identified in the phase 1 report

The phase 1 report highlights ASF’s communication challenges with the Congress and other stakeholders such as civil society organisations, the media, research organisations, private entities as well as the public in general. ASF’s dedicated office for the monitoring and co-ordinating of communications strategies plays a critical role to address many of ASF’s challenges for communicating its work and substantiating its relevance to key stakeholders. To fully empower this office, the OECD suggested ASF could consider developing an outreach and communication strategy to clarify how ASF intends its users to take advantage of its work. The OECD suggested that such a strategy could include the following considerations:

- Defining core target audiences and in the process, discern their understanding of the work of both ASF and the SNF;
- Defining clear and measurable communication objectives for each target audience;
- Clearly define the roles and the allocation of resources to achieve defined communication objectives, and
- Evaluating, monitoring and providing feedback on the implementation of the communication strategy in order to incorporate lessons learnt.

In addition, to further improve outreach and communications, the OECD recommended that ASF consider using executive summaries, one page highlights or snapshots to present main findings and recommendations from specific audits. This would help ASF staff to more precisely define their messaging and communicate concise findings. Mexico’s State Audit Institutions (Entidades de Fiscalización Superior Estatales, or EFSEs) could apply the same lessons as ASF to improve understanding of its work among stakeholders and improve citizen participation through targeted communication strategies.

Progress made in the implementation of the recommendation and areas for improvement

ASF has taken steps to improve its outreach and communication materials to make its findings and recommendations more accessible to all key stakeholders. Its means of communications and outreach include organising technical events and participating into study programmes organised by civil society organisations, universities and other areas with interest in the auditing process. At the November 2017 steering committee meeting, the requirement for all SNF institutions to develop and implement a communications strategy was included in the Guidelines on specific and general activities under the SNF.
ASF’s overall approach to communications, with a view to enhancing its relevance and the impact of its work is to more intensively engage Congress in order to present straightforward information, which is more likely to be integrated in legislative work. For example, in its June report to the Congress, "Considerations for Legislative Work" (Consideraciones para la labor legislativa), ASF included specific recommendations and further streamlined audit findings into broader governance considerations, making these findings more accessible for a non-expert audience. In addition, the October 2017 edition of "Considerations for Legislative Work" includes syntheses of the findings of most important audit reports, as well as specific legislative proposals that seek to address the issues that have been identified.

Likewise, ASF’s annual reports on the auditing of public accounts will be drafted in such a way that they will convey to Congress concrete and less technical information on strategic considerations arising from ASF’s audit results.

ASF is also conducting orientation and training on budgeting and financial management matters for relevant members of Congress, and holding ongoing informal meetings with members of Congress committees to explain its role and mandate. ASF could use these trainings and meetings to receive feedback on the needs of various committees.

Finally, ASF plans on better engaging auditees and other users of its products by conducting a survey that will be targeted at measuring the usefulness of ASF’s work. Due to workload capacity issues, the survey will be designed and implemented once it finalises the auditing of the 2016 public accounts. Similarly, the ASF plans on conducting a survey targeting Members of the Congress in order to measure the impact of their work in the legislative branch.

Similarly to what is done by the Australian National Audit Office (ANAO), ASF’s survey could seek feedback on its audit process, audit reporting, and the value of ASF’s performance audit services more generally (OECD 2014). In addition, to strengthen the independence over the administration of the survey, ASF could follow the example of Denmark’s Supreme Audit Institution (Risgrevisionen) and the New Zealand Audit Office, which have hired an independent firm to conduct client satisfaction surveys (OECD 2014; New Zealand Controller and Auditor General 2009).

Despite its efforts to strengthen communications with main stakeholders, ASF is still experiencing challenges in communicating its work to the general public and Congress, which minimises the impact of its recommendations on overall public governance in Mexico. Officials suggest that his may be due, in part, to the fact that citizens committees and media expectations may not always be aligned with the institutional framework that has been established by the Mexican Constitution and related legislation. Officials expressed concerns that the credibility of ASF recommendations is affected by public criticism for not undertaking audits that are not allowed under the Mexican Constitution. Officials also referred to media stories criticising ASF for not undertaking audits on specific issues, even though audits were already under way.

Moreover, ASF officials argued there is a lack of incentives for Congress to consider ASF’s recommendations. Officials explained that Congress rarely requests ASF’s input on policy or budgeting matters, except for the elaboration of statements or press releases destined to the media.

ASF may wish to be more proactive about shaping civil society’s and media expectations about its role and mandate, as well as about promoting incentives for giving due considerations to its work. The International Standard of Supreme Audit Institutions
(ISSAI) 12 provides useful guidance on how to maximise communication strategies with legislature and other stakeholders. To maximise its impact, ASF could draw from this guidance to design and implement a comprehensive communication strategy seeking to balance public expectations about ASF’s role and mandate, possibly through enhanced exchanges or partnerships with the media. For example, ASF could demonstrate its relevance for citizens by underlying its efforts in meeting their needs, as well as entering into a dialog on how their work may facilitate the improvement of the public sector within the current constitutional framework. The communications strategy could also include specific elements pointed out in the summary of issues identified in the phase 1 report, as mentioned above.

Such a strategy could seek to disseminate a coherent message to strategic stakeholders and to the general public about ASF’s ongoing activities as well as its role and mandate, in order to address the perceptions’ issues mentioned above. Moreover, the communications strategy will contribute to demonstrate ASF’s ongoing relevance for citizens, Congress and other stakeholders, including by strengthening the accountability, transparency, and integrity of government and public sector entities. Achieving large public support in the fulfilment of ASF’s mission, role and mandate will no doubt contribute to further incentivise Congress to give due attention and consideration to ASF’s recommendations.

In addition, ASF could focus on strengthening partnerships with apolitical staff from relevant legislative oversight committees and audited entities management boards. These specific partnerships could seek to maximise their understanding of audit reports and promote appropriate follow-up by auditees, for example through temporary staff exchanges. All state audit institutions would benefit from adopting and implementing a communications strategy as outlined above.

Summary of proposals for further action

- ASF and state audit institutions could consider designing and implementing a comprehensive communication strategy seeking to balance public expectations about ASF’s role and mandate, which could include the following elements:
  - Defining core target audiences and in the process, discern their understanding of the work of both ASF and the SNF;
  - Defining clear and measurable communication objectives for each target audience;
  - Clearly define the roles and the allocation of resources to achieve defined communication objectives, and
  - Evaluating, monitoring and providing feedback on the implementation of the communication strategy in order to incorporate lessons learnt.
- ASF could consider strengthening partnerships with apolitical staff from relevant legislative oversight committees and audited entities management boards, including through temporary staff exchanges.
- ASF could use trainings and meetings with members of Congress and Congress committees to receive feedback on their needs for their legislative work.
- ASF could consider strengthening the independence of the customers’ satisfaction survey it plans on conducting in 2018 by considering hiring an external firm to conduct the survey, which could seek feedback on the following topics: audit process, audit reporting, and the value of ASF’s performance audit services more generally.
• ASF could demonstrate its relevance for citizens by underlying its efforts in meeting their needs, as well as entering into a dialog on how their work may facilitate the improvement of the public sector within the current constitutional framework.
3. Implementing a whole-of-government approach to auditing and coordinating actions across policy areas and government

This chapter assesses the progress made in the implementation of the phase 1 recommendations that applied to the SNF as a whole, including all internal and external audit institutions at the federal and state levels and in some cases, at the municipal level. Subsection 3.1 assesses progress on the implementation of recommendations that relate to structures and strategies for an effective implementation of the SNF. Subsection 3.2 assesses progress on recommendations relating to strengthening the independence and technical capacity of SNF institutions at the local level.

The SNF is defined by the General Law on the National Anti-Corruption System (Ley General del Sistema Nacional Anticorrupción, or LGSA) as an inter-institutional coordination mechanism federal, state and municipal audit institutions. The SNF provides a strategic vision to maximize the coverage and impact of oversight at all levels of the Mexican government. The SNF seeks to strengthen the consistent application of rigorous professional standards, enhance capacity-building and exchange information among SNF institutions in order to address accountability gaps and avoid the duplication of monitoring and audit resources.

The SNF focuses on seven areas, each of which are under the supervision of a working group co-chaired by Mexico’s Superior Auditor of the Federation (Auditoría Superior de la Federación, or ASF and the Ministry of Public Administration (Secretaría de la Función Pública, or SFP), as well as state audit institutions and internal control bodies that are appointed by the co-chairs. The seven focus areas include (1) professional standards; (2) internal control; (3) legal advice; (4) audit coordination; (5) transparency; (6) capacity-building; and (7) the virtual SNF platform. The design and implementation of plans and priorities of these working groups are overseen by the SNF steering committee to ensure a coordinated approach.

SNF institutions made noticeable progress in establishing the structures and strategies that will allow for the design and implementation of whole-of-government risk management, internal control and audit strategies. Working groups meetings started in August 2017, and initially focused on defining each working group’s mandate and work plan. However, challenges remain with regards to the independence and technical capacity of external and internal audit institutions, particularly at state and municipal levels (i.e. local level). In addition, there is the lack of alignment of the states’ internal control and audit legal framework with the federal legal framework. These are just a few examples of the challenges that threaten to undermine the mandate of audit institutions in Mexico to appropriately hold governments to account on their management of public funds and the delivery of public services.

Ultimately, the responsibility to implement the recommendations and proposals for action in this chapter rests either with state legislatures, executive branches or state audit institutions, rather than ASF or SFP. Nonetheless, ASF and SFP can exercise critical
leadership roles and provide technical advice with a view to supporting state audit institutions, in particular, and achieving constitutional reforms.

3. IMPLEMENTING A WHOLE-OF-GOVERNMENT APPROACH TO AUDITING AND COORDINATING

3.1. New governance structures and strategies supporting the implementation of a whole-of-government approach to risk management, internal control and audit

The SNF steering committee and working groups begun designing strategies, but these strategies have yet to be implemented and tested. Meaningful progress was achieved on building a strategy for the use of internal control and audit data to foster transparency, strengthening the SNF governance structure, and designing a consistent whole-of-government approach to risk management, internal control and audit in order to effectively address capacity gaps.

Several recommendations from the phase 1 report related to the structures and strategies for a whole of government approach to risk management, internal control and audit. For example, the OECD recommended that SNF institutions give further thought about creating synergies for the implementation of both the SNF and SNT by adopting a unique government-wide approach to internal control and risk management for internal and external control audit bodies. In addition, the OECD recommended that SNF institutions move from an ad hoc approach to internal control and risk management to an approach that is more integrated into the everyday management of government entities in Mexico. Finally, the phase 1 report recommended strengthening coordination and alignment between key SNF actors in order to garner greater compliance from SNF institutions and support a more effective implementation of initiatives, especially at the national level.

In response to OECD recommendations, SNF institutions formally established a working group on transparency (Grupo de trabajo sobre transparencia) during the first meeting of the SNF steering committee in June 2017. The working group's role is to coordinate initiatives that span across both the SNF and SNT. In addition, SNF institutions are developing a number of tools to implement a coherent government-wide approach to internal control and risk management. SNF institutions agreed to use a single approach to internal control and risk management, called the Integrated Framework for Internal Control in the Public Sector (Marco Integrado de Control Interno en el Sector Público, or MICI). Once updated, MICI will apply to both internal and external audit institutions in the federal, state and municipal public sector. The internal control working group is developing an automated risk management system, as well as self-assessment tools for the public sector in relation with risk management and promoting integrity. A SNF virtual platform in order to exchange information on audit programmes for the 66 member institutions as well as harmonised professional standards for auditors are currently being developed, along with a wide range of trainings on internal control, risk management and auditing to reinforce technical capacity within the SNF. Concerning governance issues, it has been agreed that the SNF steering committee will oversee the functioning of the working groups and monitor emerging risks and issues that could affect the implementation of the SNF.

However, work remains in order strengthen these new governance structures and processes, and particularly how these will be implemented in practice. For example, the steering committee could consider establishing a permanent secretariat to provide ongoing support about the implementation of the SNF, and further define how each working group will be made accountable for delivering on its mandate to the steering committee. Likewise, each ministry or government agency could be required to implement a central unit that would be responsible for providing expert guidance and
resources to line managers and operational units on internal control and risk management. Behavioural aspects that foster staff ownership over processes and procedures could be integrated into technical training, and further attention could be given to anti-corruption, particularly while developing guidelines on internal control. The implementation of recommendations as well as proposals for further action under subsection 3.1 would also contribute to implement OECD’s phase 1 recommendation whereby “SNF institutions could further define their short-, medium-, and long-term strategic priorities and activities with a focus on their primary strengths in auditing, such as providing reviews on policy coherence and the effectiveness of integrity and transparency agendas.”

3.1.1. SNF members could dedicate an entity, such as a new Transparency Working Group, with the primary responsibility of coordinating with the National Transparency System and contributing to the effectiveness of the transparency agenda and open data initiatives

Relevant parties responsible for implementation:
ASF, SNF institutions and SNT members

Summary of issues identified in the phase 1 report
The International Organisation of Supreme Audit Institutions’ (INTOSAI) international standards for transparency require audit institutions to publicise audit findings and conclusions, as well as to grant public access to information. As audit institutions, SNF institutions are also responsible for acting as models for transparency concerning the public reporting of their operations (e.g. strategy, operations and performance) in a timely, reliable and clear manner (INTOSAI 2010). For example, enhancing the quality of interactions with key stakeholders and the general public through the quality and readability of audit reports or the use of online portals constitute commonly-used and effective ways to adhering to transparency principles.

The Phase 1 report acknowledged that SNF institutions have taken steps to strengthen transparency and engagement with citizenry, but it highlighted other opportunities to improve its strategic approach for the implementation of the SNT. Most importantly, the OECD recommended the creation of a designated entity with horizontal coordination capacity, such as a new transparency working group, that could assist the SNF in addressing gaps in a strategic and consistent way. The OECD advised that the designated entity could consider opportunities to expand audit institutions transparency initiatives beyond the more traditional considerations of what data will be shared, when and how; as well as new ways about how such data could be used. The designated entity could use its horizontal coordination capacity to form a forum for SNF members to identify and share their experiences with regards to auditing transparency policies across government.

The Phase 1 report also discussed how a transparency working group that would be included within the SNF could strategically make use of the increasingly data-driven environment in order to enhance the capacities of SNF institutions. The report suggested that SNF institutions consider how to become more effective consumers and producers (i.e. prosumers) of open data. For example, open data initiatives can build on other
approaches to improved transparency, like clear and timely reporting on audit results and maintaining an effective online presence. OECD’s work on open data, referenced in Box 1.2 of the phase 1 report, also provides a wide range of measures to improve transparency through open data initiatives and auditing.

An additional issue discussed by the phase 1 report is how SNF members’ legal and institutional frameworks can limit their ability to contribute to an open-data ecosystem. The OECD suggested ASF would be in a perfect position to conduct government-wide reviews of the implementation of the transparency agenda at the federal level, which could be coordinated with state audit institutions. The OECD also suggested that such coordination could also be achieved through a newly established working group on transparency within the SNF.

**Progress made in the implementation of the recommendation and area for improvement**

SNF institutions have made significant progress towards the full realisation of this recommendation. A specific working group on transparency (Grupo de trabajo sobre transparencia) was formally established during the first meeting of the SNF steering committee on 22 June 2017. Participants in this working group are determined according to SNF statues. The working group is chaired by both ASF and the Ministry of Public Administration (SFP) representatives, who are entitled to appoint four member institutions from the SNF to sit on the working group. In addition to ASF and SFP, member institutions include the Secretariat of Transparency and Accountability of the State of Guanajuato, the General Auditor of the State of Guerrero, the Secretariat of the Comptroller’s Office and Government Transparency of the State of Oaxaca, and the Higher Audit Body of the State of Tlaxcala.

The working group on transparency has the potential to effectively contribute to the implementation of recent governance reforms in Mexico. According to article 28 of Mexico’s General Law on Transparency and access to public information (Ley General de Transparencia y Acceso a la Información Pública), the overall goal of the National Transparency System (Sistema Nacional de Transparencia, or SNT) is to coordinate and evaluate actions relating to cross-cutting transparency policy objectives. Accordingly, the Working Group on Transparency overall goal is to coordinate SNF’s and SNT’s work and activities to enhance the effective implementation of both systems by proactively sharing relevant information and promoting synergies.

Indeed, based on Citizen Action Corporation of Colombia’s Index on the Availability of Information to the Public, Mexico’s ASF ranks first among South American SAIs with respect to making information about the scope of control activities, management and audit results available to the public (Figure 3.1).
Figure 3.1. Citizen Action Corporation of Colombia’s Index of the Availability of SAI Information to the Public


As for other SNF working groups, the working group on transparency will be responsible for establishing its own mandate and activities, which started to be discussed at the August 2017 working group meeting. The working group encourages SNF members to consider issues discussed in the SNT in their work plans, including the access to public information, protection of personal data, management of information, transparency, accountability, and open government, among others. It facilitates the exchange of information between the SNT and the SNF with respect to monitoring specific issues, as well as to how transparency can enhance accountability systems. The working group on transparency develops its mandate and activities in coordination with the national open data policy, in order to promote the achievement of common objectives. It will also develop a questionnaire in order to establish a diagnosis of the institutional capacities of internal control institutions at the state level, in relation with enhancing transparency while exercising their internal control activities. Concerning the establishment of an institutional capacity diagnosis across SNF institutions, the USAID provides interesting insights for generally assessing capacity (Box 3.1).
Finally, ASF will work with Mexico’s National Institute for Transparency and Access to Information to Public Information, and Data Protection (El Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales, or INAI) to develop and provide training to SNF members on transparency, access to information and protection of personal data, in collaboration with the SFP. Most of these activities are aligned with previous recommendations made by the OECD in its phase 1 report.

SNF institutions may also draw from good practices arising from the recent adoption of the US Data Act to determine how they can better generate and make use of open data to foster transparency on public spending falling under their oversight role. The US Data Act requires the U.S. Federal Government to transform its spending information into open data (Box 3.2).
Box 3.2. The Data Act: Transforming U.S. Federal Spending into Open Data

The Digital Accountability and Transparency Act of 2014, or DATA Act, is the U.S. first open data law. It requires the U.S. federal government to transform its spending information into open data.

The DATA Act (Public Law No. 113-101 official text) was signed into law on May 9, 2014. The DATA Act is structured as an amendment to a previous law, the Federal Funding Accountability and Transparency Act of 2006 (Public Law No. 109-282 official text).

The DATA Act adds two basic requirements. First, it requires the Treasury Department and the White House Office of Management and Budget (OMB) to establish government-wide data standards for the spending information that agencies report to Treasury, OMB, and the General Services Administration. Second, Treasury and OMB must publish this standardized spending data for free access and download.

On May 9, 2017, every agency in the federal executive branch began reporting spending data using the standardized data structure that Treasury and OMB had established. Treasury published the full data set at beta.usaspending.gov.

The DATA Act also sought to standardize the information that recipients of federal funds, such as contractors and grantees, must report to the government. Section 5 of the DATA Act required OMB to run a pilot program to determine whether data standards might relieve compliance costs for recipients. The pilot program ended on May 9, 2017. OMB reported the results of the pilot program to Congress on August 11, 2017. By August 11, 2018, a year after its report to Congress, OMB must decide whether to apply the standardized elements and formats to all reports by contractors, grantees, and other recipients, across the whole government.

The Treasury Department has developed and published this data structure, known as the DATA Act Information Model Schema (DAIMS). Treasury developed the DAIMS on its Federal Spending Transparency GitHub site, allowing agencies and the public to provide input at each stage.

By standardizing their spending information, agencies gain new enterprise-wide visibility into their accounts, obligations, and awards. Meanwhile, inspectors general are able to lower the costs associated with deploying anti-fraud analytics. The data is also available for anyone to download and use – data platform and analysis companies, transparency advocacy groups, news organizations, and the public.


Summary of proposals for further action

- The Transparency working group could encourage SNF institutions to establish government-wide open data standards for the reporting of spending information that allow for free access and download.
3. IMPLEMENTING A WHOLE-OF-GOVERNMENT APPROACH TO AUDITING AND COORDINATING...

3.1.2. The SNF could also advance a coherent, government-wide approach to internal control and risk management by harmonizing existing frameworks and improving coordination between external and internal audit bodies

Relevant parties responsible for implementation:
Internal control working group, Professional standards working group,
SNF platform working group, Capacity-building working group,
Coordination working group, SNF institutions

Summary of issues identified in the phase 1 report
International standards suggest a role for both ASF and SFP in developing internal control and risk-management models, but these institutions have used different reference standards to develop their own frameworks. On the one hand, ASF has developed MICI under the auspices of the SNF and the mandate of the Working Group on Internal Control. MICI is largely based on the US GAO Standards for Internal Control in the Federal Government. On the other hand, SFP has recently developed its Standard Model of Internal Control (Modelo Estándar de Control Interno, or MECI), which is an attempt at harmonising SFP’s previous internal control and risk management framework (SCII) with MICI. However, divergences between frameworks used for these functions remain across institutions and, in some cases, gaps and fragmentation exist in terms of applying international good practices.

The SNF provides a unique opportunity to mainstream these standards and tools as well as training modules into one single approach, and the SNF’s working group on internal controls would be well-positioned to lead this effort. In particular at the state level, it exists a need to work both on harmonising the legal framework and improving relevant procedures and approaches for audit practitioners. Moreover, going beyond co-operation for harmonisation, the OECD recommended that ASF and SFP explore constructive ways to further their collaboration in line with international good practices, including the exchange of audit plans and reports, co-operation on methodological and training matters to harness economies of scale, technical advice and streamlining communication with both external and internal audit bodies.

Progress made in the implementation of the recommendation
Although the full implementation of this recommendation is planned for a medium- to long-term basis, noticeable progress was achieved with respect to laying the ground work for the implementation of a coherent government-wide approach to internal control and risk management. In particular, work from the internal control, professional standards, SNF platform and coordination working groups will contribute to further Mexico’s objective to achieve a fully integrated and government-wide risk management and internal control approach in the public sector.

First, SFP officials confirmed that MICI will become Mexico’s only internal control framework applying to the public sector on a medium-term basis. When all auditing standards will be defined thoroughly, the working group on internal control will turn to expanding the use of auditing standards to all three levels of government.
In addition, the internal control working group has developed a strategy for the dissemination of MICI, which are currently being revised by the working group. This strategy generally aims at communicating the benefits and relevance of internal control systems within the public sector. This is required by article 45 of the General Law on the National Anti-Corruption System, which describes the responsibilities of the SNF to establish such guidelines. This working group has also agreed, at its August 2017 meeting, to undertake the task of issuing supplementary guidelines on internal control-related issues, including risk management as well as fraud and corruption risk identification. These Guidelines could focus specific attention on corruption risk in areas that are commonly referred to as highly vulnerable to corruption, such as public infrastructure and procurement (Figure 3.2).

Figure 3.2. Bidding and contracting are the highest perceived corruption risks in the infrastructure industry

Integrity risks occur in every stage of the procurement process, from the needs assessment over the biding phase to the contract execution and payment. The nature of the integrity risk may differ for each step, and red flags include undue influence, conflict of interest, and various kinds of fraud risks (see Table 3.1 below). As integrity risks exist throughout the public procurement process, a holistic approach for risk mitigation and corruption prevention is needed. Focusing integrity measures solely on one step in the process may increase risks in other stages. Similarly, addressing only one type of risks may give leeway to integrity violations through other mechanisms. For example, administrative compliance measures in the bidding phase do not root out the risk for political interference in the identification of needs. Likewise, asset declarations for
procurement officials may not sufficiently protect against bid-rigging or petty fraud (OECD 2016b).

Table 3.1. Corruption risks associated with the different phases of the procurement cycle

<table>
<thead>
<tr>
<th>Phase</th>
<th>Corruption risks</th>
</tr>
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</table>
| Needs assessment             | • Lack of adequate needs assessment  
                                • Influence of external actors on officials decisions  
                                • Informal agreement on contract                                                                      |
| Planning and budgeting       | • Poor procurement planning  
                                • Procurement not aligned with overall investment decision-making process  
                                • Failure to budget realistically or deficiency in the budget                                           |
| Development of specifications/requirements | • Technical specifications are tailored for a specific company  
                                • Selection criteria is not objectively defined and no established in advance  
                                • Requesting samples of goods and services that can influence  
                                • Buying information on the project specifications                                                     |
| Choice of procurement procedure | • Lack of procurement integrity for the use of non-competitive procedures  
                                • Abuse of non-competitive procedures on the basis of legal exceptions: contract splitting, abuse of extreme urgency, non-supported modifications |
| Request for proposal/bid     | • Absence of public notice for the invitation to bid  
                                • Evaluation and award criteria are not announced  
                                • Procurement information is disclose and made public                                                   |
| Bid submission               | • Lack of competition or cases of collusive bidding:  
                                o cover bidding  
                                o bid suppression  
                                o bid rotation  
                                o market allocation                                                                                     |
| Bid evaluation               | • Conflict of interest and corruption in the evaluation process through:  
                                o familiarity with bidders over time  
                                o personal interests such as gifts or future/additional employment  
                                o no effective implementation of the “four eyes-principle”                                               |
| Contract award               | • Vendors fail to disclose accurate cost or pricing data in their price proposals, resulting in an increased contract price (i.e. invoice mark-ups, channel stuffing)  
                                • Conflict of interest and corruption in the approval process (i.e. no effective separation of financial, contractual and project authorities) |
3. IMPLEMENTING A WHOLE-OF-GOVERNMENT APPROACH TO AUDITING AND COORDINATING…

- Lack access to records on the procedure

<table>
<thead>
<tr>
<th>Risks of the post-award phase</th>
<th>Contract management/ performance</th>
<th>Order and payment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Abuses of the supplier in performing the contract, in particular in relation to its quality, price and timing:</td>
<td>Deficient separation of financial duties and/or lack of supervision of public officials leading to:</td>
</tr>
<tr>
<td></td>
<td>o Substantial change in contract conditions to allow more time and/or higher prices for the bidder</td>
<td>o False accounting and cost misallocation or cost migration between contracts</td>
</tr>
<tr>
<td></td>
<td>o Product substitution or sub-standard work or service not meeting contract specifications</td>
<td>o Late payments of invoices</td>
</tr>
<tr>
<td></td>
<td>o Theft of new assets before delivery to end-user or before being recorded</td>
<td>o False or duplicate invoicing for good and services not supplied and for interim payment in advance entitlement</td>
</tr>
<tr>
<td></td>
<td>o Deficient supervision from public officials and/or collusion between contractors and supervising officials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Subcontractors and partners chosen in an opaque way or not kept accountable</td>
<td></td>
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</table>


Finally, the internal control working group has also agreed to deliver an automated risk management system (SAAR) as well as different training on internal control as well as risk management and integrity. The working group on internal control has also agreed to deliver self-assessment tools in the public sector in relation with risk management and promoting integrity. These integrity risk management tools could build on the IntoSAINT tool developed by the Netherlands Court of Audit to analyse their integrity risks and assess the maturity level of their integrity management systems (Box 3.3).
Box 3.3. IntoSAINT self-assessment tool for SAIs’ integrity management systems

IntoSAINT is a self-assessment instrument for SAIs to analyse their integrity risks and assess the maturity level of their integrity management systems. An IntoSAINT moderator can facilitate an integrity self-assessment for a Supreme Audit Institution. The self-assessment takes place in a structured two-day workshop. The instrument is targeted at corruption prevention and leads to management recommendations to support the integrity of the organisation. The self-assessment results in a report that enables the Supreme Audit Institution to design a tailor made integrity policy and at the same time increase the integrity awareness of employees.


Second, the professional standards working group is responsible for developing an awareness raising strategy across the Mexican public auditing community on the existence and relevance of the SNF professional standards framework. The strategy will oversee the implementation process, as well as updates to the framework in accordance with the developments that could take place within the INTOSAI standards. The general mandate of this working group is provided by article 42 of the LGSA, which requires SNF members to approve the processes, procedures, techniques, criteria, strategies, programmes and professional standards in relation with internal control and audit.

And third, the working group on the SNF platform will be responsible for exchanging information regarding the audit programs of the 66 members of the SNF. This will be done through the upcoming virtual platform that will be launched under the SNF. The information that will be shared includes audit plans, audit reports, and applicable legislation, and allow for mapping all audits undertaken across the country. The SNF platform will contribute to harmonize audit processes and local auditing laws, and will contribute to aligning the timeframe, the concepts and the scope of the sanctions arising from auditing. The working group on the SNF virtual platform was established in accordance with article 55 of the LGSA. The SNF platform, which is part of the National Digital Platform of the National Anticorruption System, will seek to strengthen control activities over the use of federal, local and municipal resources across all three levels of government. Considering technical and harmonisation challenges, ASF officials provided that full integration of the SNA and SNF platform will be a medium- to long-term objective. SNF institutions could consider drawing from the Italian and Czech experiences about building an information sharing database for a large range of audit institutions (Box 3.4).
Box 3.4. Building a database to share information among audit institutions

The Czech SAI’s Benchmarking Information Exchange Project.

The BIEP project aims at establishing a database to allow for information sharing among audit institutions from different jurisdictions. Auditors and analysts from different SAIs will be able to easily find in one place methodological documents, soft and hard audit metrics (KPIs) as well as audit results and findings. The database will be accessible online through a secured extranet, but are subject to binding safeguards to ensure the confidentiality of the information.

The main goal of this database is to benchmark SAIs in five priority areas: real estate infrastructure, social housing, eGovernm, education, and prison systems, but it could be expanded to additional areas based on the interest of participating SAIs. Benchmarking will be prioritized based on information that is easily comparable, i.e. where methodologies have common bases. For example, the Czech and Slovak republics conducted excise duty-related audits that compared information systems, which were developed according to a European legislation applicable to all EU Member countries and hence, based on identical parameters. The comparison of the audit results came to the conclusion that the costs incurred by the Czech Republic information system were less than that of the Slovak Republic.


Italy’s Corte dei Conti Information System

In 2009, Italy launched an ambitious and vast reform process of the public sector accounting and financial statements. The reform involves more than 11,000 institutions, with many different legal forms with an array of diversified legislative framework, including different accounting rules and financial statements. The overall objective of the reform is to improve harmonisation, transparency and accountability in budgeting, and accounting and financial reporting in the Italian public sector, at all levels. To achieve this objective, the Italian Court of Audit and the Italian Ministry of Economy and Finance implemented a public database that includes the harmonized budget of all public bodies, as well as all data related to the financial statements and underlying accounting data. The new information system will use the standard protocol XBRL (extensible business reporting language), and will codify all data according to new harmonised mandatory codes applicable to all local government entities (regions, provinces, municipalities).


With a view to have a platform that is compatible with all SNF institutions objectives and operations systems, the ASF and SFP, as co-chairs of the working group, will administer a survey to determine the information systems used by each SNF institution for the performance of their duties. The survey will also seek information about whether audit reports are publicly available to the public and if so, on how they are made available and what information is disclosed, as applicable. The outcomes from these surveys will help determine the specificities of the platform, and facilitate buy-in from SNF institutions as
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well as implementation. To promote a government-wide approach to internal control and risk management that effectively contributes to implement the SNA, the development of the platform is coordinated with the ASOFIS Meeting on Information and Communication Technologies as well as the Working Groups on Coordination for Inspection and Legal Consultation.

Finally, the working group on coordination will work towards harmonising and coordinating audit programming between federal and state levels, through the agreements on federalised expenditures (convenios y acuerdos en materia de gasto federalizado). A model agreement will be signed between Mexico’s State Audit Institutions (Entidades de Fiscalización Superior Estatales, or EFSEs), with the purpose of advancing compliance with SNF objectives and with the LGSA.

Overall, the SNF established a very ambitious agenda for promoting a coherent, whole-of-government approach to internal control and risk management. The OECD encourages SNF institutions and legislatures to continue efforts to harmonise risk management, internal control and audit frameworks for a better implementation of the SNF.

Summary of recommendations

- The supplementary guidelines currently being developed by the internal control working group could focus specific attention on corruption risks in areas that are commonly referred to as highly vulnerable to corruption, such as public infrastructure and procurement.
- The SNF working group on the digital platform and SNF institutions could consider drawing from other countries’ experience in setting up digital audit platforms to overcome specific challenges (compatibility, political will, budgetary, legal) and for maximising the benefits arising that could arise from the platform.
- The internal control working group and SNF institutions could build on the IntoSAINT self-assessment tool for SAIs’ integrity management systems while developing self-assessment tools in the public sector in relation with risk management and promoting integrity.

3.1.3. SNF members could address the “implementation gap” related to internal control and risk management activities by conducting audits and evaluations that encourage ownership, accountability and skill development among public sector managers responsible for these functions

Relevant parties responsible for implementation:

SNF coordination working group, SNF internal control working group, SNF capacity building working group, SNF professional standards working group, SNF institutions

Summary of issues identified in the phase 1 report

OECD’s phase 1 report found an important gap in the design and execution of internal control systems and risk management functions, as well as in the reporting of the results of such efforts. Such a gap refers to the greater integration of internal control and risk
management practices into the everyday management of government entities in Mexico, in accordance with international standards and guidelines like the International Organisation for Standardisation (ISO) 31000, COSO’s Enterprise Risk Management Integrated Framework and the UK HM Treasury’s Orange Book on Management of Risks. Currently, internal control and risk management in the Mexican public sector is mostly considered ad hoc, as opposed to be integrated into organisational objectives and day-to-day operations.

Addressing the implementation gap will be critical for the SNF, particularly ASF and SFP, in order to have effective internal control and risk management in Mexico’s public sector. To close the implementation gap, the OECD specifically recommended to entities within the SNF to consider audits and evaluations that help strengthen the following:

- Integrating individual tasks in relation to internal control and risk management with the institution’s objectives and strategic plans;
- Linking reward systems (e.g. remuneration, promotion) with the performance of specific and measurable duties within the internal control function;
- Incorporating in the individual job descriptions for specific high-risk processes (e.g. procurement, payroll) and concrete obligations in relation to the management and the ownership of controls and risks;
- Training and awareness campaigns focusing on clarifying the tasks and the responsibilities within the internal control system between the personnel working at the operational level (“first line of defence”) and those who have no direct operational responsibility, thus being independent from delivery units (“second line of defence”),
- Communicating and reporting (e.g. newsletters, website, and posters) specific cases of detected control weaknesses, and actions taken to remedy the situation, including any sanctions applied as well as appraisals and awards related to specific initiatives and actions to improve the control and risk functions.

**Progress made in the implementation of the recommendation and areas for improvement**

Despite being at the early stages of implementing this recommendation, SNF institutions made noticeable progress to empower public servants to fully understand and own upcoming risk management and internal control policies and procedures. As discussed under recommendation 3.1.2, the SNF internal control working group is currently developing a risk self-assessment guide for public sector entities, as well as an additional self-assessment guide on integrity in the public sector, along with an implementation guide on integrity and prevention of corruption in the public sector. In addition, the working group is developing a standard internal control evaluation model for public administrations at the state and municipal levels. These self-assessment tools will be linked with the internal control guidelines (MICI) that are also currently being developed, in order to constitute the SNF overall strategy to build and integrate a risk management and internal control capacity across SNF institutions. The SNF steering committee is expected to finalise these policy documents for the federal and state levels later this year, before turning to those that will apply at the municipal level.

In addition, the internal control working group is developing a training strategy and materials on risk management, internal control and integrity. A professional trainer will be hired specifically to implement the training strategy. This strategy will be developed in coordination with the capacity-building working group, which also contributes to its
implementation. More specifically, the capacity-building working group will participate in the delivery of training materials, as well as certify the training materials developed by ASF and SFP. The capacity-building working group will also identify public officials from all government levels who will need to be trained in the ASF, SFP, CPCE-F and ASOFIS.

The ASF and the SFP have evaluated the number of officials who may require such training. This includes a diagnostic on the relevant training currently being offered within the framework of the SNA, as well as methodologies for the detection of training needs of audit staff. The training strategy will be combined with an awareness-raising and communication strategy that will specifically focus on the importance of internal control and risk management. Specific attention will focus on the awareness of risk management and internal control in the areas of information technology and public sector communication.

The professional standards working group also conducts audit-related work that may contribute to reinforce public service management and staff ownership of risk management and internal control procedures. It has developed an awareness-raising strategy on the SNF regulatory framework to guide each institution on the various actions to be taken to disseminate the professional standards and the benefits that they provide for the implementation of the SNF and good governance principles. For example, the working group has organised a workshop for members of CPCE-F to promote the value of professional standards of the SNF, adding to actions that raise awareness about the benefits arising from its implementation. Ms. Ana Laura Arratia Pineda, Deputy Secretary for Control and Audit of Public Management of the SFP, also discussed the possibility that future workshops focus on how auditing professional standards could be exploited for the specific purpose of effectively addressing capacity gaps.

The working group on internal control and the working group on professional standards could empower a centralised unit in each ministry or government agency in order to provide sufficient guidance and expert resources on risk management and internal control to operational units. A dedicated entity present in each government agency to advance risk management activities, preferably at a higher level to demonstrate management's commitment, is a key element for successful implementation. Such an entity could be responsible for ensuring that concrete obligations in relation to the management and the ownership of controls and risks in the individual job descriptions for specific high-risk processes are implemented (e.g. procurement, payroll), as discussed in the phase 1 report. In addition, the entity could also be responsible for ensuring that reward systems (e.g. remuneration, promotion) are linked with the performance of specific and measurable duties within the internal control function. Finally, the entity could also coordinate the communication and reporting of specific cases of detected control weaknesses, what actions were taken to remedy the situation, as well as appraisals and awards related to specific initiatives and actions to improve the control and risk functions.

Some countries have succeeded in developing committees that are dedicated to risk management. The Australian Crime and Misconduct Commission of Queensland (CMC) is one such example that illustrates how governments can structure their fraud and corruption risk management initiatives in individual ministries or agencies (see Box 3.5 below). The CMC developed a practical manual with guidelines intended to help agencies effectively plan how to control fraud and corruption. They present an integrated approach that includes proactive measures designed to enhance system integrity (prevention measures) and reactive responses (reporting, detecting and investigating activities).
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...objective is to facilitate the development of public programmes and policies that will achieve a comprehensive and integrated treatment of inherent fraud and corruption threats by describing clear methodological steps and allocating concrete roles and responsibilities, depending on the entity’s size, relating to curbing fraud and corruption.

Box 3.5. Managing fraud and corruption risk management and assigning a dedicated entity

Depending on the size of the agency, the fraud and corruption control programme may warrant different levels of response. These may involve establishing one or more of the following:

- risk management committee;
- fraud and corruption control committee;
- fraud and corruption control co-ordinator and/or manager.

A. The risk management committee:

- ensures that the agency maintains effective risk management practices across all its activities;
- oversees the development of a systematic and co-ordinated risk management framework;
- monitors the external risk environment;
- assesses the impact of any changes on the agency’s risk profile.

B. Fraud and corruption control committee

A larger agency may also establish a fraud and corruption control committee to deal specifically with fraud and corruption issues. This committee should have a broadly based (cross-functional) membership to ensure that it can cover all areas at risk. It should carry a clearly defined responsibility for overseeing the effective implementation of fraud and corruption control measures.

C. Fraud and corruption control co-ordinator or manager

Change management is more likely to be successful where there is accountability for the commitment of human and financial resources and for the outcomes. Nominating a responsible person, position or small taskforce as a “champion” to drive the programme and bring about change is one of the best ways to ensure success.


In addition, ongoing training may be given to relevant staff not only about the technical aspects of their roles in risk management and internal control, but also about the behavioural aspects of fostering staff ownership of processes and procedures. The institutionalisation of new processes and reinforcing management ownership over internal control activities involves a strong behavioural component that takes into account the beliefs, habits and motivations of individuals (Stoop, 2016). Moreover, institutional legacies, failure to understand the complexity and a lack of leadership support are all factors that can influence the ability of an organisation to adopt new practices and evolve.
Change management principles and practices could help SNF institutions responsible for internal control to overcome such challenges and support further integration of risk management and internal control in day-to-day operations in the public service.

Harvard University professor John Kotter employs an 8-step process (Kotter 2014), as shown in Figure 3.3 below. Kotter's 8-step process offers a framework to institute change with regards to greater manager ownership over the internal control system. For instance, internal control units in ministries and government agencies could develop concrete activities with regards to each of these steps, with the goal of refining strategic goals, objectives and policies, as well as addressing the behavioural aspects of institutionalising reforms. Reports about corruption in Mexico offer a sense of urgency, as described in Kotter's first step. Transparency International reports that among Latin American and Caribbean countries, Mexico has the highest rate of citizens who had to pay a bribe to access public services, i.e. 51% (Transparency International, 2016). This suggests the need for better risk management and internal control systems in order to improve trust in government.

**Figure 3.3. 8-Step Process for Leading Change**

Once a group of champions or a coalition has been identified, Kotter's 8-step process suggests that ministries or government agencies should develop a clear strategy, activities and outcomes for effectively improving management ownership. A strategic vision for the SNF, as highlighted in Kotter’s third step, could focus on policy outcomes and highlight the public value that is derived from strengthening internal control and risk management, such as increased and fair access to public services, as well as reductions in loss of public funds to corruption and fraud (OECD, 2017b). Moreover, the vision could be coupled with realistic targets, timelines and a communication strategy to provide clarity about proposed changes and build consensus. Realistic objectives and scheduling of reform efforts can help government entities avoid initial negative perceptions from the organisation’s management and staff.

**Summary of proposals for further action**

- State executive branches could empower a centralised unit in each ministry or government agency in order to provide sufficient guidance and expert resources on risk management and internal control to operational units in government. Such an entity could:
  - ensure the implementation of concrete obligations in relation to the management and the ownership of controls and risks in the individual job descriptions for specific high-risk processes;
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- ensure that reward systems (e.g. remuneration, promotion) are linked with the performance of specific and measurable duties within the internal control function;
- coordinate the communication and reporting of specific cases of detected control weaknesses, what actions were taken to remedy the situation, as well as appraisals and awards related to specific initiatives and actions to improve the control and risk functions.

- SNF institutions could provide ongoing training to relevant staff about the behavioural aspects of fostering staff ownership of processes and procedures. The institutionalisation of new processes and reinforcing management ownership over internal control activities involves a strong behavioural component that takes into account the beliefs, habits and motivations of individuals.

3.1.4. The SNF could improve its governance structure to enhance its effectiveness, better align strategic objectives and address areas of need, particularly in municipalities

<table>
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<tr>
<th>Relevant parties responsible for implementation:</th>
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<td>SNF institutions, SNF steering committee</td>
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Summary of issues identified in the phase 1 report

The OECD recommended strengthening the SNF, through more effective co-ordination and alignment between key actors, in order to garner greater compliance from SNF institutions and support a more effective implementation of initiatives, particularly at the subnational level. Indeed, 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).

The SNF provides for a steering committee (Comité Rector) and various working groups, which facilitate both horizontal and vertical co-ordination across governments and entities, but specific mechanisms could further support an effective implementation of SNF initiatives, particularly at the subnational level. Suggested improvements in the governance structure and activities of the SNF to foster co-ordination and address implementation gaps include:

- Establishing a permanent secretariat to monitor progress on the strategic plan and provide support as appropriate;
- Expanding the membership of the governing board and of working groups to include representatives from municipalities and government branches that are currently underrepresented;
- Broaden the outreach to additional constituencies to create wider working relationships;
• Take advantage of existing additional coordination tools to strengthen multi-level governance, such as Mexico’s National Conference of Governors (Conferencia Nacional de Gobernadores, or CONAGO) and the National Conference of Municipalities of Mexico (Conferencia Nacional de Municipios de México or CONAMM);

• Reinforce the binding nature of agreements between members (e.g. convenios, acuerdos) to define more specific output and outcome objectives, as well as transparent monitoring and reporting to the Governing Committee and Congress.

• Hold more regular meetings for working groups for a more regular sharing of results and incentivise quicker progress.

Progress made in the implementation of the recommendation and areas for improvement

As discussed in the OECD phase 1 report, the SNF’s main governing body is the steering committee (Comité Rector), which is established according to article 7 of the LGSA. Article 39 of the LGSA also provides that the SNF steering committee will be composed of ASF and SFP, as well as seven rotating members among state audit institutions and public bodies responsible for the management of internal control at the state level. These additional seven members will be elected for a period of two years by consensus among ASF and SFP.

The steering committee seeks to offer a clear path for the achievement of the objectives defined under the SNF, as well as common goals for all SNF members and SNF working groups. The main objective for establishing the steering committee was to ensure a more timely response to upcoming challenges and to extend the scope of SNF’s work to areas not originally contemplated, such as strengthening the institutional capacities of municipalities.

During the first meeting of the steering committee held in June 2017, it was agreed that the committee will oversee the functioning of the working groups and will look after emerging issues that could affect the scope and depth of the SNF. The steering committee discussed specific actions that may be undertaken by SNF working groups, such as:

• the development of professional standards for audits within the SNF;

• the elaboration and implementation of a coordinated training program, and

• the elaboration and adoption of a framework of reference that contains general criteria for the prevention, detection and deterrence of acts of corruption, among others.

Furthermore, the steering committee discussed the main risks arising from SNF operations, including:

• inconsistencies of local legal frameworks with federal laws;

• insufficient financial commitment to implement the SNF at the local level;

• an inoperable and deficient SNF virtual platform;

• non-compliance with requirements to publicise audit reports, and

• vulnerabilities in the integrity of audits and audit bodies.

Members of the steering committee undertook to closely monitor these risks as well as associated mitigation measures, as applicable. At its meeting in November 2017, the steering committee has issued two sets of policy documents to ensure coherent and consistent governance across SNF institutions, i.e., the Guidelines for Institutional
Improvement on Oversight and the Guidelines on Specific and General Activities under the SNF. The steering committee could further consider defining the coordination mechanisms recommended in the OECD phase 1 report, as some of the measures may significantly contribute to reinforce the governance of the SNF. For example, the SNF could consider the establishment of a permanent secretariat under the steering committee to provide ongoing support about technical and implementation issues to SNF institutions, as well as to closely monitor progress is paramount for a consistent implementation of the SNF across all governments in Mexico.

In addition, as discussed in the phase 1 report, the steering committee may also consider expanding the membership of the governing board and of working groups to include representatives from a wider range of municipalities and government branches to promote broader involvement under the SNF. This could also be combined with broadening outreach activities to engage additional constituencies to create wider working relationships. Moreover, the next steering committee meeting will also be an opportunity to discuss which municipalities will be prioritised by the steering committee in terms of strengthening local institutional capacities. In that respect, getting input from a large number of diversified audit institutions may help to ensure the inclusion of as many perspectives as possible are taken into account in the establishment of SNF priorities.

Finally, officials anticipate that the steering committee will further discuss support and accountability mechanisms for the achievement of SNF working groups’ objectives in upcoming meetings. While each SNF institution may be made more accountable by reinforcing the binding nature of agreements between members (e.g. convenios, acuerdos) and defining more specific output and outcome objectives as discussed in the phase 1 report, each SNF working group may be made accountable on the scope of their activities as well as to how it delivers on its own mandate. For example, relevant laws or policies could include further details as to how SNF working groups may be made accountable to the steering committee, including through predetermined deliverables or indicators.

**Summary of proposals for further action**

- SNF institutions and the SNF steering committee could establish a permanent secretariat under the steering committee to provide ongoing support about technical and implementation issues to SNF institutions, as well as to closely monitor progress for a consistent implementation of the SNF across all government levels in Mexico.
- SNF institutions could expand the membership of the steering committee and of the working groups to broaden representation and involvement at all government levels, and broaden outreach activities to engage additional constituencies to create wider working relationships.
- Establish further details in law or policy as to how SNF working groups may be made accountable to the steering committee, including through predetermined deliverables or indicators.

### 3.2. Continue strengthening the independence and technical capacity of SNF institutions to advance a whole-of-government approach to accountable governance

A supreme audit institution (SAI) whose independence is guaranteed by law is one of the fundamental pillars of a healthy democracy. As such, the International Organisation of
Supreme Audit Institutions’ (INTOSAI) Mexico Declaration on SAI Independence provides eight general principles, as follows:

1. The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework
2. The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties
3. A sufficiently broad mandate and full discretion, in the discharge of SAI functions
4. Unrestricted access to information
5. The right and obligation to report on their work
6. The freedom to decide the content and timing of audit reports and to publish and disseminate them
7. The existence of effective follow-up mechanisms on SAI recommendations
8. Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

In addition, the Organization of Latin American and Caribbean Supreme Audit Institutions’ (OLACEFS) Declaration of Asunción on Budgetary Security and Financial Stability of Supreme Audit Institutions calls on member countries to adopt a set of principles that increase SAI independence from the executive. These principles include implementing a transparent process to determine SAIs’ budgets that is protected against potential conflicts of interest, transparency in the financial management of SAIs, full autonomy of SAIs for the recruitment and management of human resources, and the protection from external interference while SAIs carry out their audit work.

However, full abidance with these principles will not be sufficient to guarantee the complete independence of SAIs. SAIs need sufficient technical capacities to appropriately gather government data and conduct in-depth analysis of such data, in order to provide fact-based information and expert advice on government programmes and activities gathered through audits. SAIs must also have the technical capacities to appropriately convey their findings to Parliamentarians, whose role is to use the information to hold the government to account on its management of public funds.

This is an area where much progress remains to be done by SNF institutions in the future in order to be able to appropriately exercise its oversight role over the management of public funds. In the phase 1 report, the OECD highlighted the importance of addressing obstacles to the achievement of an appropriate level of independence for state audit institutions by, for example, decreasing their subordination to governors’ offices. Not much progress has been reported since the issuance of the phase 1 report in that respect. Legislatures may need to quickly turn further attention to this issue, as an effective implementation of the SNF and SNA is dependent upon the achievement of a sufficient level of independence for internal and external audit institutions, so that they can hold public institutions and governments accountable for their management of public funds and delivery of public services.

In addition, SNF institutions were advised to close capacity and policy gaps in areas of greatest need to allow for a consistent approach at implementing national reforms at the local level. Scaling up budgetary and technical capacity involves devoting an adequate amount of resources to recruit skilled auditors by way of a transparent, merit-based process, and ensuring a sufficient level of employment security to promote their objectivity. Moreover, an effective investment in technical capacity will not be limited to the executive branch, as increased technical capacity within Congress that falls outside political party hierarchical structure may be an essential tool for an effective and timely
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follow-up on audit recommendations by SAIs. Finally, to measure how SNF institutions have achieved overall SNF objectives, the OECD encouraged relevant institutions to use outcomes (i.e. impact) rather than outputs (i.e. policies or processes) to more accurately monitor the ultimate of relevant reforms.

The steering committee has started to engage governors about fostering independence of audit institutions, and the capacity-building working group is providing and advising states on how to comply with requirements under the SNF and the SNA in order to minimise the risk of meaningful deviations from recent governance and anti-corruption reforms. The implementation of the SNF virtual platform and the MICI across internal and external audit institutions in Mexico will allow for consistent risk management, internal control and audit approaches and reduce the risk of overlap or duplication. The SNF steering committee has recognised the need to monitor the consistency of the legal frameworks and the level of financial resources committed to the SNF by state legislatures, and the working group on internal control will support the implementation of risk management self-assessment tools at the state level. There are several instances where local laws on administrative responsibilities fail to comply with the national framework under the LGRA, including several gaps in relation with the independence of local audit institutions. For example, as of September 2017, 15 states out of 32 had not yet adopted their law on internal control and audit.

Reinforcing the independence and the technical capacity of SNF institutions in a consistent and coordinated manner is one of the most important challenges for the implementation of the SNF. Consistently removing state legislatures’ prerogatives to approve internal decisions of local audit institutions, to enact budget reductions, to block the publication of SAI reports and to remove supreme auditors and internal auditors in certain states may go a long way in strengthening the independence of SNF institutions. As the implementation of harmonised professional standards will ultimately rest with each SNF institution, these may be made accountable to report to the working group on how they have promoted implementation and ownership over these standards. The OECD also recommended that the SNF steering committee monitor how SNF institutions and legislatures develop, implement and institutionalise transparent and merit-based recruitment and promotion policies to foster the implementation of audit recommendations.

3.2.1. The SNF could close legal and policy gaps to improve the independence of state audit institutions in Mexico, building on momentum of recent actions to embody the SNF in the General Law for the National Anti-Corruption System

Relevant parties responsible for implementation:

SNF institutions, subnational level legislatures and executive branches,
SNF steering committee

Summary of issues identified in the phase 1 report

The OECD phase 1 report found that lack of independence continues to hinder the effectiveness of Mexico’s State Audit Institutions (Entidades de Fiscalización Superior Estatales, or EFSEs), due to a number of deficiencies arising from the legal framework.
The LGSA now formalises the SNF in Mexican law, and has the potential to create an incentive for stakeholders to commit to collective responsibilities, despite the fact that the law does not provide for specific sanctions for non-compliance. Incentives for implementing the SNF may be further strengthened by the requirement for close coordination with the SNA, which is an important priority for both the government and the general public. Yet, the OECD phase 1 report suggested a number of additional modifications that may be considered in order to close some of the gaps that can allow the executive power to interfere with the work of state audit institutions in Mexico.

Since EFSEs rely on the Attorney-General (AG) to follow through on some of their findings involving potential criminal behaviour, the accountability chain can break down if the AG fails to act in a timely manner on the information provided by the EFSEs. The appointment of the Special Anticorruption Attorney was identified by the OECD as an opportunity to improve the follow-up on EFSEs findings. In addition, the OECD suggested that standard procedures be established on how state legislature could better use the audit reports’ findings.

The phase 1 report also suggested, based on interviews as well as other studies undertaken by Mexican independent institutions, that obstacles still remain in achieving harmonisation of legal and policy frameworks to ensure these protect the independence of EFSEs and state controllers. One such obstacle is the subordination of state legislatures to the Governor’s Office, due to the lack of checks and balances imposed on governors by the judiciary, the legislative branch, autonomous bodies, civil society or the press. Thus, threats to political independence can contaminate audit programming, the decision to undertake certain audits, and the objectivity of EFSEs’ findings. As a result, the phase 1 report highlighted practices that EFSEs could consider to strengthen their independence, including:

- Eliminating the need for Congressional approval for EFSEs’ internal decisions;
- Imposing limitations on Congress’s ability to limit EFSEs budget;
- Making the annual report and other key document public by default;
- Enacting staff appointment procedures that are transparent, objective and merit-based;
- Making removal reasons as explicit as possible, and
- Developing a professional audit service.

Progress made in the implementation of the recommendation and areas for improvement

To strengthen the independence of EFSEs, the SNF has contemplated a number of approaches, including the promotion of legal reforms that enhance the independence of audit entities, as well as the creation of internal control structures within state audit institutions. In addition, in the last year, the SNF steering committee began to engage CONAGO in order to raise the profile related to the independence issues affecting internal and external audit bodies.

Reforms to the broader SNA could also help to strengthen the independence of EFSEs. The SNA Coordination Committee agreed to monitor and report on the establishment of

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1 The SNF has been formalised into law through the General Law on the National Anti-Corruption System and is formally linked to the SNA.
local anticorruption systems. Such monitoring and reporting will cover (1) the design of appropriate constitutional reforms and secondary legislation to implement the objectives of the SNA, including the SNF; (2) the appointment or extension of the heads of institutions involved in subnational SNAs, and (3) the implementation of these measures. As part of the SNF, the legal advice working group will conduct an analysis of the secondary legislation related to the implementation of the SNF, as well as a gap analysis of the local systems, in order to reflect on the upcoming compliance challenges of local legal frameworks with newly passed federal legislation.

The legal and institutional context in each state varies significantly, which makes the elaboration of a specific timetable for a complete implementation of independence principles difficult to achieve. For instance, in some states, local laws on administrative responsibilities fail to comply with the national framework under the LGRA, including several gaps in relation with the independence of EFSEs and other key anti-corruption bodies. According to a survey conducted by ASF in September 2017 on local laws implementing the LGSA and the SNA:

- Six state laws do not provide for the appointment of the Technical Secretary by the Executive Secretariat of the Local Anti-Corruption System (Sistema Local Anticorrupción, or SLA) through an open and transparent process (Aguascalientes, Chiapas, Mexico City, Colima, Jalisco and Querétaro).
- Mexico City’s and Aguascalientes’s state law fails to require appointment of selection committee members for the SLA by higher education and research institutions, as well as by civil society organizations.
- Two state laws do not provide for the autonomy of the prosecutor specialized in combating corruption (Hidalgo and Sonora).

Strengthening the independence of EFSEs will also necessitate strengthening state auditing systems by achieving full alignment with the federal framework. However, 15 of 32 state laws on local auditing systems had yet to come into force, even though states had until 18 July 2017 to comply with the federal framework.
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Some opposition to in-depth legal reforms on independence may be expected at the state and local levels. In response to potential opposition, SNF members could start building broad coalitions among key stakeholders, such as legislatures, executive branch entities and civil society, in order to build support for legal amendments that would, for example:

- require congressional approval for internal decisions of EFSEs;
- remove the ability for local legislatures to enact EFSEs budget reductions;
- remove obstacles to making public EFSEs’ annual reports and other important documents public by default, and
- clarify grounds for removal of supreme auditors and internal auditors in certain states.

As a member of the SNA coordination committee monitoring the implementation of the SNF at the local level, the SNF steering committee could consider providing guidance on the constitutional reforms and secondary legislation that may be necessary in order to positively impact on the independence of EFSEs along the lines of the INTOSAI’s Mexico Declaration and the Declaration of Asuncion, discussed earlier. In line with such guidance, ASF officials suggested that the SNF could further promote the independence of EFSEs by raising awareness at the local level regarding limits on EFSEs’ autonomy, which could increase political pressure to preserve EFSEs’ independence. In developing guidance, SNF institutions could find the experience of other countries instructive, such as those adopted at the federal level in Canada (Box 3.6). A critical component of such guidance, in response to the OECD’s recommendations of phase 1, would be the advancement of merit-based processes for the recruitment of all staff hired by SNF institutions, including the auditor general, to help ensure independence (see 3.2.4 below for further discussion).

**Figure 3.4. States that have adopted their law on control and audit**

Federal states that have issued a new audit law

![Pie chart showing Yes, 17 and No, 15]  

*Source: ASF (2017), Progress on the approval of anti-corruption reforms in federal states, Survey to state audit institutions [Avances en la aprobación de las reformas en materia anticorrupción en las entidades federativas, Encuesta a las Entidades Fiscalizadoras Locales (EFL)].*
Box 3.6. Independence Safeguards included in Canada’s Auditor General Act

Appointment of the Auditor General: By Governor-in-Council, after consultation with the leader of every recognized party in the Senate and House of Commons and approval of the appointment by resolution of the Senate and House of Commons.

Tenure of the Auditor General: A non-renewable term of 10 years, but may be removed for cause sooner by the Governor in Council on address of the Senate and House of Commons.

Responsibility for human resources management: The Auditor General is responsible for recruiting and appointing staff for the Auditor General’s Office, and dispose of full powers to administer human resources within the Office, in line with applicable legislation but without the approval from the executive.

Contract for professional services: The Auditor General has full discretion to contract for professional services within the limitations established in appropriation Acts that determine the Auditor General’s Office budget, as long as such contracting is consistent with any other Act of Parliament.

Annual budget: The Auditor General prepares an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of the Auditor General’s office during the next ensuing fiscal year. The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in the Auditor General’s opinion, inadequate to enable him to fulfil the responsibilities of his office.

Examination: The Auditor General shall have the sole discretion to undertake examinations and inquiries to audit the accounts of Canada. The Auditor General shall report annually to the House of Commons on anything that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons and as such, to the public.

Special report: The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next annual report.


While the SNA and the SNF have taken steps in the right direction, the establishment of the right legal, policy and institutional environments for the fulfilment of meaningful independence requirements of SNF institutions has yet to be achieved. Addressing independence issues is critical for the immediate relevance and viability of the ESFE’s if they are to fulfil their external oversight role. Indeed, empirical research shows that auditing institutions differ in their willingness to hold corrupt politicians accountable, and that such variations are often attributed to variation in their degree of independence from political branches. Auditors appointed under few constraints by elected officials hold politicians accountable who have breached applicable rules, co-partisans in particular, at lower rates than bureaucrats insulated from political influence. Even when there are stringent rules for the appointment of auditors (e.g. meritocratic and professional requirements), auditors “still exhibit a pro-politician bias in decision-making.”
Researchers thus suggest that “removing bias requires a level of insulation from politics rare among institutions of horizontal accountability” (Hidalgo, Canello and Lima-de-Oliveira, 2015).

**Summary of proposals for further action**

- The SNF steering committee could consider providing guidance on the constitutional reforms and secondary legislation that may be necessary in order to strengthen the financial and operational independence of EFSEs, at a minimum by undertaking the following:
  - removing the requirements for congressional approvals for internal decisions of EFSEs;
  - removing the ability for local legislatures to enact EFSEs budget reductions;
  - removing obstacles to making public EFSEs’ annual reports and other important documents public by default;
  - ensuring the appointment of key SNA and SNF officials are made according to the law and to an open and transparent process, and
  - clarifying grounds for removal of auditors in certain states.
- SNF institutions could consider implementing robust merit-based processes for the recruitment of all staff.

3.2.2. **Over the medium to long term, the SNF could simplify audit procedures for sub-national levels of government to minimize duplication and help ASF to effectively manage its expanded mandate to audit revenue-sharing transfers**

<table>
<thead>
<tr>
<th>Relevant parties responsible for implementation:</th>
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<tbody>
<tr>
<td>SNF working group on auditing standards, SNF working group on capacity building, SNF working group on coordination, SNF working group on the digital platform, SNF steering committee, SNF institutions</td>
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</table>

**Summary of issues identified in the phase 1 report**

As discussed earlier, ASF’s increased mandate adds to the complexity of audits within the SNF itself. Under the new auditing framework provided by the SNF, ASF will coordinate its audit work with state audit institutions in order to avoid overlaps and establish its focus on specific programmes, policies and funds as appropriate. Likewise, the ASF will now be responsible for auditing all federal funds, including those transferred to states and municipalities, as applicable. Originally, some of these funds were audited by state audit institutions.

The expansion of the audit universe to cover revenue-sharing transfers adds a considerable responsibility and potential burden to audit institutions. Therefore, to fulfil the obligations that come with the expanded mandate, avoid duplication and minimise audit fatigue of internal and external auditors in the oversight of federal transfers, the OECD suggested that the SNF consider closing legal and policy gaps over the medium and long term, to ensure sub-national governments and institutions have the ability to
implement the proposed reforms. This could include adopting laws and policies similar to those of other countries that are commonly referred to as “single audit” approaches.

*Progress made in the implementation of the recommendation*

The establishment of the SNF virtual audit platform has the potential to significantly contribute to the coordination of audits from SNF institutions across Mexico, and avoid audit overlap or duplication. The platform will include all annual auditing programmes of SNF institutions, and will allow for an effective exchange of information among these institutions. The information uploaded on the platform will be public, which will allow for external oversight on the SNF's coordination efforts. According to article 55 of the LGSA, the SNF platform will have to include, at a minimum, the following information: the annual audit programs, the audit reports and a platform that allows appropriate exchange of information among SNF members.

However, there are no accountability mechanisms that would require SNF institutions to report to the steering committee as to how they have coordinated their activities with other SNF institutions. To improve co-ordination, the steering committee could require the working group on the SNF virtual platform or another entity to establish priority areas where SNF institutions should coordinate their activities to create synergies, efficiencies and avoid overlap or duplication. This could include carrying out pilot projects in specific areas as well as integrating their audit programming.

In addition, the implementation of the upcoming auditing standards, which is mandated by the LGSA both for internal and external audits, will also significantly contribute to align national and subnational audit practices. Both working groups on auditing standards and capacity-building will coordinate to facilitate the consistent implementation and ensure buy-in of the updated auditing standards across jurisdictions. Following the signature of coordination agreements with state audit institutions to frame the transfer of resources to states and municipalities, ASF will play a central role in capacity-building activities within the SNF.

The single audit approach recommended by the OECD is expected to be implemented after the national audit mapping has been finalised. Specifically to ASF, the organisation has reported changes to its internal structure that aim at facilitating the management and effective implementation of its new responsibilities. The auditing of federal spending has grown substantially in order to address the new mandate in relation with the increased scrutiny on revenue shares provided to states, and this led to the establishment of a new general directorate that is made specifically responsible for conducting such audits. There are now four general directorates that each look after eight Mexican states. The ASF is also in the process of hiring 100 additional staff that will be working in the investigation and substantiation areas, as discussed earlier in this report.

*Summary of proposals for further action*

- Require the working group on the SNF virtual platform, or another entity, to establish priority areas where SNF institutions need to coordinate their activities to create synergies, efficiencies and avoid overlap or duplication.
- The SNF working group on auditing standards could continue working on developing and implementing a single-audit approach in Mexico.
- The steering committee could use the information included on the platform to issue general guidance to SNF institutions for the coordination of audits and support ASF in fulfilling its recently expanded mandate.
3.2.3. State legislatures and the SNF could consider scaling up budgetary resources and addressing capacity gaps in states where there is the greatest need in order to help state audit institutions fulfil their mandates and mitigate the risk of disparities across regions and levels of government

### Relevant parties responsible for implementation:

State legislatures, state executive branches, SNF institutions, SNF working group on internal control, SNF working group on capacity building, SNF steering committee, SNF coordination committee

### Summary of issues identified in the phase 1 report

OECD’s phase 1 report found important capacity gaps among SNF members. Such capacity and resource gaps significantly undermine the implementation of the SNF and ultimately, the effectiveness of its initiatives. Indeed, many EFSEs had to espouse a “learning by doing” approach to build capacity at the sub-national level when they faced the responsibility to deliver on specific competences. However, capacity is not inherent and it requires an investment of time and resources to develop.

ASOFIS figures show that the average years of employment and turnover levels vary widely among Mexican states. Furthermore, a great deal of variation exists between EFSEs in terms of human and financial resources that are available for the conduction of their activities. The OECD suggested additional specific efforts that could urgently be deployed to identify the potential benefits of closing resource and capacity gaps among EFSEs, including:

- Increasing budgetary resources for EFSEs, including grants for delegated audits, and with a vision to equalise funding and resources across states;
- Hiring of additional auditors with more competitive salaries;
- Professionalising the audit function, ensuring permanent positions and guaranteeing job security and independence of work (see next subsection);
- Scaling-up training initiatives under the auspices of the SNF Working Group on Capacity Building to increase in-house capacities, and
- Developing initiatives to increase mobility of auditors between EFSEs with a view to promote sharing of knowledge and good practices.

### Progress made in the implementation of the recommendation and areas for improvement

Resource and capacity gaps are a priority issue for the working groups on capacity-building, professional standards and internal control. Efforts to close these gaps will be undertaken and coordinated across all SNF institutions. In addition, the SNF steering committee has identified the insufficient commitment of financial resources at the local level as one of the main risks that could impede the effective implementation of the SNF. The steering committee has started to monitor the level of financial resources committed to the SNF at the local level. Building on these efforts, the SNA coordination committee and the SNF steering committee could consider additional tools that would strengthen
transparency and accountability about each state legislature’s financial commitment towards the implementation of the SNF. For example, foreseen financial commitments as well as their full implementation could be made available on the SNF virtual platform, which could strengthen the accountability of each institution. It could also constitute an additional tool contributing to the mapping of regional capacity gaps in the implementation of the SNF.

Beyond the commitment of financial resources by state legislatures, the issue of prioritising capacity-building in state audit institutions is cutting across the agendas of several SNF working groups. Such cross-cutting issues are key to the creation of a suitable control environment within the public sector in Mexico, with the ultimate goal of promoting good governance principles and further closing resource and capacity gaps across SNF members. As discussed in the OECD phase 1 report, EFSEs that do not prioritise training and professionalization can fall into a vicious cycle, marked by “brain drain”, poor performance, and as a result, ongoing difficulties in raising resources or attracting talent. Moreover, differences across states in terms of both capacities and resources can lead to varying outputs and quality between states, as well as growing divergences over time.

To strengthen EFSEs institutional capacity and avoid recurring issues discussed above, the working group on internal control is developing tools to support audit institutions and public entities to carry out risk and integrity self-assessment exercises. Such self-assessment tools could draw from the AFROSAI-E Institutional Capacity Development Framework (ICBF) developed to self-assess SAIs performance and measure their compliance with ISSAIs. This assessment tool includes five development areas that are ranked over a scale of 1 (founding level) to 5 (optimised level) (Box 3.7). The ICBF measures the performance of SAIs against ISSAIs and other international and regional best practices.
Box 3.7. The AFROSAI-E Institutional Capacity Development Framework

The AFROSAI-E Institutional Capacity Development Framework (ICBF) aims to help SAIs improve their results. The ICBF uses the International Standards of Supreme Audit Institutions (ISSAIs) and other international best practices as benchmarks against which development and performance are measured. The framework serves as a basis for a self-assessment tool to be used by member SAIs. The framework consists of five institutional development areas, which are as follows: 1) Independence and legal framework; 2) Organisation and management; 3) Human resources; 4) Audit standards and methodology, and 5) Communication and stakeholder management.

**INDEPENDENCE AND LEGAL FRAMEWORK**

This domain of the assessment tool concerns SAIs' capacity to undertake their activities in an independent and impartial manner while ensuring that they have the capacity to fulfil their duties. For example, SAIs should have financial, managerial and administrative autonomy, and sufficient financial and human resources to carry out their work. SAIs should also have full discretion when fulfilling their duties, freedom to select which audits should be undertaken, and the capacity to decide on the content, timing and publication of audit reports. To ensure their recommendations have been addressed, SAIs should have follow-up mechanisms in place.

**ORGANISATION AND MANAGEMENT**

Regarding organisation and management, SAIs should have strong leadership to guide their activities and regular, strategic planning of audits. An internal control system must also be in place to ensure that the SAI's policies and practices are in line with international standards. SAIs should have the capacity to undertake different types of audits, and a management information system that allows staff to report and record their activities. To promote integrity among SAI personnel, a comprehensive code of ethics needs to be in place.

**HUMAN RESOURCES**

The assessment tool contains a human resources component that allows SAIs to measure the effectiveness of their Human Resources Management (HRM). SAIs are expected to have comprehensive HRM policies in place regarding (but not limited to) recruitment, training, remuneration, performance, and staff development. Personnel should be regularly monitored and evaluated with regards to their performance, and new staff members should receive appropriate training. Secondments to other SAIs, coaching and mentoring processes, and on the job training are also components of effective HRM within SAIs.
AUDIT STANDARDS AND METHODOLOGY
Concerning audit standards and methodology, the assessment tool focuses on annual audit plans, audit manuals, and quality control measures. Audit plans should address risks and constraints, providing clear activity plans and statement of audit coverage. Audit manuals should be aligned with a training programme and reviews regularly to keep them up to date and in line with international standards. To ensure quality control, roles and responsibilities of staff should be clearly outlined, and SAI policies and procedures should incorporate quality assurance. A clear communication strategy with auditees is considered essential.

COMMUNICATION AND STAKEHOLDER MANAGEMENT
This domain outlines the need for effective communication and stakeholder engagement through the audit process. A clear strategy for external communication should be in place to convey the vision, mission and values of the SAI. Channels of communication between the SAI and the Parliament and Judiciary should also be clearly defined. Promotion and awareness-raising of the SAI’s activities may include engaging with the media and academia, as well as the general public. Audit reports and findings should be accessible to relevant stakeholders.

The framework is also comprised of five development levels:

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<th>DEVELOPMENT LEVEL</th>
<th>INDEPENDENCE AND LEGAL FRAMEWORK</th>
<th>ORGANISATION AND MANAGEMENT</th>
<th>HUMAN RESOURCES</th>
<th>AUDIT STANDARDS AND METHODOLOGY</th>
<th>COMMUNICATION AND STAKEHOLDER MANAGEMENT</th>
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Based on the framework, a questionnaire was developed which serves as a self-assessment tool for SAIs, focusing on their performance and compliance with international standards. The questionnaire contains 185 questions and is distributed annually to AFROSAI-E member SAIs. In 2016, the response rate to the questionnaire was 92%.

The working group on internal control is also developing a strategy and programme for the adoption of an integrated internal control framework (MICI) for SNF institutions at all three levels of government. The working group on internal control coordinates the training strategy on internal control with the capacity-building working group, in order certify and deliver training materials on internal control, and identify areas where public servants must be subject to the training activities.

The capacity-building working group is also developing a multi-year training programme on the overall activities that are required to be conducted under the SNF. It would be appropriate that this training programme takes into account areas of greatest need. The capacity-building working group is also working on a professional certification programme with the professional standards working group which, when implemented, will contribute to step-up institutional capacity and identify areas where more efforts are required to harmonise capacities across SNF institutions. The development of consistent professional standards across SNF institutions will contribute to optimise the planning, development and quality of audits. One of the stated objectives of the professional standards working group is to identify and eliminate capacity gaps across SNF institutions, despite the fact that the implementation of actions proposed by the professional standards working group will be the direct responsibility of each SNF institution, due to the principle of state autonomy under the Mexican constitution. Therefore, as mentioned above with respect to financial commitment by state legislatures, the SNA coordination committee and the SNF steering committee could consider additional tools that would strengthen transparency and accountability over the implementation of recommendations for reducing capacity gaps.

It is understandable that the SNA coordination committee and the SNF steering committee wish to begin the implementation of the SNF by focusing on institutionalising consistent methodologies for the conduction of audits, the implementation of professional standards, and on training for the effective implementation of these new standards. However, when these objectives are achieved and vulnerable institutions or areas are better defined, the steering committee may wish to consider more in-depth measures to address capacity gaps, such as developing initiatives to increase mobility of auditors between SNF institutions. SNF institutions’ staff could also participate in staff exchanges at the international level, with a view to promote sharing of knowledge and good practices. Such programmes have proven to be successful, and could be replicated within Mexico by twinning more advanced with less advanced audit institutions.

Next steps for SNF institutions may also include the identification of more concrete measures to address funding gaps in resource-strained settings where increasing budgets may be difficult to achieve, including specific mechanisms to equalise funding and resources across states. Such mechanisms could include advocacy and education to Congress on budget deficits among audit institutions, or managerial trainings for heads of ESFEs to use resources efficiently and avoid fraud, waste and abuse. Finally, the SNA coordination committee and the SNF steering committee could engage state legislatures and local SNF institutions to clarify expectations about the financial and resource commitments that may be deemed necessary for an effective implementation of the SNF and SNA.

**Summary of proposals for further action**

- Considering that the implementation of the professional standards for audit developed under the SNF is the direct responsibility of each SNF institution, require
each institution to report in detail on the implementation of professional standards for auditing, including an opportunity for other SNF institutions or peers to ask details about the implementation of these standards.

- Beyond developing methodologies for conducting audits, implementing professional standards and training, the steering committee may take additional measures for addressing capacity gaps, such as increasing mobility of auditors between SNF institutions or at the international level, with a view to promote sharing of knowledge and good practices.
- The SNF steering committee and capacity building working group may implement specific mechanisms to promote the equalisation of funding in resource-strained settings, such as advocacy and education to Congress on budget deficits among audit institutions, or managerial trainings for heads of ESFEs to use resources efficiently and avoid fraud, waste and abuse.
- The SNF steering committee and the SNA coordination committee could further engage state legislatures and local SNF institutions to clarify expectations about the financial and resource commitments that may be deemed necessary for an effective implementation of the SNF and SNA.

3.2.4. The SNF could also strengthen the professional audit service and create sound human resource management policies in audit institutions that help to ensure independence and effective implementation of SNF initiatives

Relevant parties responsible for implementation:
Congress and state legislatures, executive branches, SNF institutions, SNF steering committee, SNF working group on capacity building, SNF working group on auditing standards,

Summary of issues identified in the phase 1 report

There are existing efforts to build capacity of state audit institutions in Mexico, but the OECD’s phase 1 review found that such efforts are severely undermined by weak human resources recruitment policies. The SNF working group on auditing standards has developed auditing standards aligned with INTOSAI, the Institute of Internal Auditors (IIA) and the International Federation of Accountants (IFAC), and it is tasked with harmonising standards across the system. Furthermore, the federal government is planning to support the capacity-building process of state audit institutions by allocating specific resources to improve and harmonise government accounting.

However, high levels of turnover, particularly at the state level, caused by the common practice of new mayors and governors to remove incumbent officials from their posts and hire new staff, the resources invested in training or capacity-building can turn out to be sunk costs following an election. The failure to appoint auditors based on proper merit-based policy contributes to the lack of professionalization of public auditing in Mexico. Another factor that contributes to this lack of professionalization is that national reforms to standardise the mandate and work of external audit institutions in states occurred fairly recently, and therefore professionalization of auditors in these institutions remains an ongoing process.
Therefore, while capacity-building efforts are worthwhile and should be maintained and strengthened, the OECD advised the SNF working group on professional auditing standards to consider supporting the design and implementation of merit-based human resources management policy that seek to build a more permanent and competent workforce of public auditors. The implementation of such policies in internal and external audit institutions would include focusing on merit-based recruiting and promotion, evaluation of performance and capacity-building.

*Progress made in the implementation of the recommendation and areas for improvement*

The first meeting of the SNF working group on professional auditing standards was held in August 2017, with the general objective of enhancing technical capacities of all SNF members. The enhancement of technical capacities is intended to converge with the ongoing dissemination and institutionalisation of auditing standards, in order to improve quality of auditing and foster the independence of internal and external auditing functions.

Moreover, the working group on capacity building is also specifically responsible for human resources issues among SNF members. This working group coordinates training efforts for both the audited entities and the auditing institutions within the public sector. Both the ASOFIS, through the ASF, as well as the CPCE-F, through the SFP, are expected to share and analyse the results of their respective diagnoses on the training currently being offered within the framework of the National Anti-Corruption System. Through the capacity building working group, ASF and SFP will also develop methodologies for the detection of training needs of audit staff, based on the obligations derived from relevant legislation. The results of these diagnoses will serve as input for the design of the Ruling Plan of Multi-Year Joint Training of the SNF.

However, the impact of these important efforts to strengthen professional standards for risk management, internal control and audit professionals will be undermined if such professionals run the risk of being replaced at any time, based on political or other illegitimate considerations that may significantly weaken oversight over government operations.

Major human resources reforms must be coordinated by both the SNF steering committee and the SNA coordination committee. At the last SNA coordination committee meeting, it was agreed to establish a formal appointment process for the heads of internal audit departments in the public sector in Mexico. This new appointment process, which is still under consultation, involves more transparent merit-based procedures for the appointment of heads of internal control bodies (OIC). It is expected to be implemented before the end of the year, and hopefully could pave the way to the establishment of a national human resources policy across internal and external audit institutions in Mexico. Indeed, for the time being, the new appointment process would only apply to heads of internal control unit, and there haven’t been any indications that the strengthening of a comprehensive merit-based human resources policy based on performance and a deep commitment to public service integrity values is currently being considered for all SNF institutions.

As a result, the development, implementation and institutionalisation of a transparent, merit-based human resources policy has yet to be achieved across public sector organisations for all three levels of government in Mexico. Considering the central role that SNF institutions play in the implementation of the SNA in the public sector, and the importance of independent oversight for healthy democracies, SNF institutions could constitute an area where merit-based recruitment, retention and promotion policies could
be tested, before considering their expansion to the rest of the public service. For example, the United Kingdom, like many other OECD countries, uses an open process based on competencies for the recruitment and promotion of civil servants (Box 3.8). In addition, Australia uses an independent selection advisory committee to ensure that public service appointments are made on merit (Box 3.9).

In Mexico, while the Law for the Professional Career Civil Service of 2003 (Ley del Servicio Profesional de Carrera de la Administración Pública Federal, or LSPC) has been a key factor in implementing a merit-based management of the civil service, it is not uniformly implemented across the public sector at all three levels of government. Indeed, an ongoing challenge in Mexico relates to the lack of homogeneity of status in the civil service. For example, employees of the federal government are divided into two categories: unionised affiliation (base) and free appointment (confianza). While unionised affiliation is usually reserved for administrative and technical personnel and implies a significant level of stability, free appointment of employees is mostly used for higher positions with shorter-term contracts (OECD 2017b).

Box 3.8. Human Resources Management in the U.K. public sector

**Human Resources standards**

The Civil Service HR Function, Civil Service Human Resources (CSHR) in the U.K. is made up of teams that provide a source of expertise on people, policies, processes and recruitment in the U.K. public sector. Centrally, the HR Function offers guidance in areas including pay and reward, talent management, employment policies, strategic workforce planning, and learning and development.

**Recruitment**

The U.K. uses one of the most highly position-based recruitment systems of all OECD countries. Entry into the civil service is through open competition for a position, and the process is subject to audits to ensure recruitment adheres to the established guidelines. Available positions are posted within the public service only, or both within and outside the public service.

The Civil Service Commission regulates recruitment, assuring that appointments are made based on merit and after a fair and open competition. This is supported in the Commission’s Recruitment Principles 2015, which outline the legal requirement that selection must be on merit.

**Promotion**

Competency-based interviews are the main determinant of promotions and there are no formal restrictions to promotion between hierarchical grades. After considering any surplus staff, vacancies are placed on transparent listings open to the whole of government, and there is some use of assessment centres to ensure merit-based selection.

*Sources:* Civil Service Commission, [http://civilservicecommission.independent.gov.uk/](http://civilservicecommission.independent.gov.uk/)
Civil Service Human Resources Function, [https://www.gov.uk/government/collections/civil-service-human-resources-function](https://www.gov.uk/government/collections/civil-service-human-resources-function)
Box 3.9. Australia’s Independent Selection Advisory Committees (ISAC)

The Merit Protection Commissioner is a statutory office holder responsible for independent reviews of employment actions, promotion decisions, and fee-for-service functions that support merit. The Independent Selection Advisory Committees (ISAC) is one example of a fee-for-service function used to recruit staff in the Australian Public Service (APS). To establish an ISAC, an agency can make a request to the Merit Protection Commissioner. The overarching role of ISAC is to establish and conduct an impartial assessment of the relative skills and capabilities of candidates. In consultation with the agency, ISAC establishes the best selection methodology to assess candidates. ISAC considers the skills and attributes of candidates relative to the skills and attributes required to successfully perform the duties of the job vacancy. It conducts a staff selection exercise by assessing candidates, preparing reports, and making recommendations to the agency.

An ISAC is an alternative to the traditional Australian Public Service recruitment that reinforces integrity in the workplace. There are various benefits for agencies to use ISACs, including:

- Merit-based recruitment solutions that are streamlined, cost-effective and timely;
- Good workplace relations through transparent, independent, impartial selection processes;
- Cost-savings for agencies by staff placements not subject to promotion reviews;
- Flexible process that accommodates multiple selection methodologies;
- Merit pools of preferred candidates ranked by relative suitability;
- Enable agencies to make staff placements for similar job vacancies over a 12 month period;
- Gain expert knowledge in best practice of staff selection.

When undergoing the staff selection process, ISAC operates under the powers of the Merit Protection Commissioner, and is therefore independent. An ISAC has three members: a convenor nominated by the Merit Protection Commissioner; a person nominated by the agency that requested the ISAC; and a third member who is also nominated by the Merit Protection Commissioner. ISAC works in partnership with the agency. Each member signs a declaration of impartiality and forms an independent judgement about candidates. ISAC then makes recommendations to agencies about the suitability of candidates.


Summary of proposals for further action

- Legislatures, executive branches and SNF institutions could develop, implement and institutionalise transparent and merit-based recruitment and promotion policies in SNF institutions across all three levels of government in Mexico.
3.2.5. Congress could build its own technical capacity in order to increase uptake of inputs from ASF and the SNF

Relevant parties responsible for implementation:

Congress

Summary of issues identified in the phase 1 report

The exercise of scrutiny by Congress over audit reports and the execution of the state budget are essential for effectively holding the government to account on its management of public funds. Budget and Public Accounts Committees (PACs) are often responsible for this role, as is the case in Mexico. In order for Public Accounts and Budget Committees to be effective, their operations framework must not create barriers to the exercise of their oversight role, and these committees must dispose of the expertise required to carry out their role.

A key step in the scrutiny process for approving the public accounts in Mexico is the Vigilance Committee’s (CVASF) analysis of ASF’s audit report, which sends its own assessment to the Budget and Public Accounts Committee with recommendations. The CVASF also asks all other Congressional committees to submit opinions in writing regarding ASF’s report. While such a consultative approach is a practical way to involve a wide range of Congressional stakeholders in the accountability process, too few committees provide opinions on the accounts. Moreover, while the Chamber of Deputies has statutory responsibility to approve the budget, it has failed to do so on a consistent basis.

OECD’s phase 1 report found that certain committees lack technical support to fulfil their scrutiny duties altogether, and some committees with support are financed by political parties and work for specific deputies within the Chamber, as opposed to the Committee itself. Having a strong technical capacity among committees would increase the knowledge and expertise to actually use ASF’s reports effectively to improve legislative initiatives, budget processes and other issues of concern for committees. According to representatives from the CVASF, committees need subject matter experts to help them interpret the information in ASF’s reports, but this function is not institutionalised in the Chambers.

Progress made in the implementation of the recommendation and areas for improvement

ASF has undertaken to keep a close relationship with the oversight commission of the Chamber of Deputies, and continually offers capacity building programmes for the Congress members’ advisory staff. New capacity building programmes carried out by ASF for Congress members’ advisory staff have started taking place during the last quarter of 2017. The main topics that will be touched upon by ASF’s capacity-building programmes include: (1) the National Anti-Corruption System; (2) the National Auditing System; (3) the scope and mandate of ASF’s work, and (4) the value and benefits of auditing in an accountability environment. These capacity-building programmes are not mandatory and are their impact is not being evaluated.
Legislatures at the federal and state levels may benefit from supreme audit institutions’ support in order to empower Members to conduct their scrutiny and oversight duties in relation with the adoption of the budget. So far however, most support provided by ASF has focused on raising awareness in Congress about the benefits arising from consideration of some of its recommendations.

Beyond training and awareness-raising on supreme audit institution’s specific mandates, legislatures may benefit from ongoing impartial and technical advice on audit and public budgeting matters. In that respect, an important challenge to overcome is the lack of career civil servants currently employed in legislatures whose responsibility is to provide impartial advice to members of the legislature. Legislatures may greatly benefit from the implementation of better-defined, transparent merit-based policies for the recruitment of staff with the required technical expertise and who are politically unaffiliated to provide objective technical support and advice. Such technical support could be centralised or be allocated to legislative committees supporting the legislature (Box 3.10). No progress has been accomplished in that respect so far, and this may explain, at least in part, why there has generally been little uptake from legislatures on audit recommendations from supreme audit institutions in Mexico.

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**Box 3.10. Nonpartisan government employees in the U.S.**

The use of nonpartisan, objective staff can lead to better informed decision-making processes in government institutions and ensure that technical expertise are provided in an objective manner. In the U.S., there are several independent agencies that have been established to support Congress in this way.

**Congressional Research Service**

The Congressional Research Service (CRS) works solely for the United States Congress, providing policy and legal analysis to committees and members of both the House and the Senate, regardless of party affiliation. Analysis and advice provided by the CRS is confidential, objective, and nonpartisan. The CRS serves to inform policy and provide technical expertise to Congress.

**Congressional Budget Office**

The Congressional Budget Office (CBO) produces independent analyses of budgetary and economic issues throughout the Congressional budget process. The CBO conducts impartial, objective analysis and recruits employees through a merit-based system, regardless of political affiliation. The agency does not make policy recommendations, but supports Congress by producing frequent reports and cost estimates for proposed legislation.


A number of OECD countries have established independent fiscal watchdogs to ensure that legislators are provided with accurate and nonpartisan analysis of the budget and economy. Such measures address bias towards spending and deficits, enhance fiscal discipline, raise the quality of debate, and enable greater scrutiny of Government actions through increased transparency (Box 3.11).
Box 3.11. Independent analysis for accountable decision-making: the role of Parliamentary Budget Offices

Australia

The Parliamentary Budget Office (PBO) was established in 2012 in Australia. The role of the PBO is to inform the Parliament by providing independent and nonpartisan analysis of the budget cycle, fiscal policy, and the financial implications of proposals. The PBO is required to prepare costings of publicly announced policies on request by authorised members of parliamentary parties or independent parliamentarians, with both the requests and the PBO’s responses to be made public. After a general election, the PBO reports on the budget impacts of the election commitments, and analyses the budget and fiscal policy settings, with the results of this work to be made public.

Canada

The Office of the Parliamentary Budget Officer (PBO) was established in Canada in 2006 in response to criticisms surrounding the accuracy and credibility of the federal government’s fiscal projections and forecasting process, amidst fears that partisan politics may be affecting fiscal projections. The Office is mandated to provide the Canadian Parliament with independent, authoritative, and nonpartisan financial and economic analysis. It does this by undertaking the following: Analysing the State’s finances and spending plans; analysing trends in the Canadian economy; and estimating the financial cost of proposals within Parliament’s jurisdiction.

United Kingdom

The Office for Budget Responsibility (OBR) provides independent analysis of the U.K.’s public finances. Established in 2010, the Office has five main roles:

- Economic and fiscal forecasting: The OBR produces detailed five-year forecasts for the economy and public finances twice a year. An annual Forecast Evaluation Report examines how they OBR’s other reports compare to subsequent outturns and draws lessons for future forecasts;
- Evaluating performance against targets: The OBR’s public finance forecasts judge the Government’s performance against its fiscal targets and target for welfare spending;
- Assessing the long-term sustainability of the public finances;
- Evaluating fiscal risks;
- Scrutinising the Government’s costing of tax and welfare spending measures.


While Congress builds a workforce that is able to provide impartial and technical advice, ASF could consider making resources available for providing ongoing analytical support when Congress expresses an interest. Alternatively, the provision of such analytical...
support could be based on a list of strategic issues or areas that are key to Congress’s oversight role, and which are pre-determined on an annual basis.

**Summary of proposals for further action**

- Congress may develop, implement and institutionalise transparent and merit-based recruitment and promotion policies in SNF institutions across all three levels of government in Mexico.
- Executive branches may consider establishing independent fiscal watchdogs to ensure that legislators are provided with accurate and nonpartisan analysis of the budget and economy.
- While Congress builds a workforce that is able to provide impartial and technical advice, ASF could consider making resources available for providing ongoing analytical support when Congress expresses an interest, or based on a list of strategic issues or areas that are key to Congress’s oversight role, and which are pre-determined on an annual basis.
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