

SAI's Assessment on Internal Control Systems

Introduction

During the last 30 years in Mexico, there have been several efforts to establish an effective civil servant culture in the government.

The outcomes of these efforts have not been very promising. For instance, neither has it yet been possible to count on a civil servant career, nor established a results-oriented scheme for the public entities.

Despite of that, there is a new public management framework which has been underway during the last five years. It is comprised of three main elements:

- (1) a new public accounting regulation at national level, which enforces all public entities to issue financial information in a harmonized fashion, under an accrual basis approach and including the transparent disclosure of public assets;
- (2) the establishment of a performance assessment system (PAS) in order to measure the degree of compliance of public programs' objectives based on indicators and linked to an outcome-based public budget, and
- (3) an innovative Act on access to public information, which compels civil servants to compulsorily publish basic information as well as submit public data upon request by the general public.

These are decisive elements to be taken into account for the integration of an improved management culture, however, they must be part of a day-to-day practice aimed at attaining institutional objectives and goals, and conceived as a system, not as isolated measures.

In this context, what has been the challenge of the Superior Audit Office of Mexico? Before this new reality we have found out that, besides including the aforementioned topics as part of our auditing work, we have realized that there is a need to promote a preventive approach in order to avoid potential waste, fraud and corruption cases within public institutions.

Therefore, the promotion of an internal control culture as well as its assessment became a strategic objective for our SAI.

In fact, in April 2013, the SAI of Mexico's organizational structure was modified by including a new department that, among other functions, is in charge of assessing the Federal Government's internal control systems.

In view of this, the Supreme Audit Institution of Mexico decided to undertake, during its most recent auditing cycle, an assessment on Internal Control Systems of the Mexican Federal Government.

This evaluation was based on the updated Internal Control-Integrated Framework (COSO, published in May 2013).

The assessment encompassed 290 institutions of the three government branches -279 from the Executive Branch, 2 from the Legislative Branch, 3 from the Federal Judicial Branch and 6 entities such as the Central Bank, the National Elections Authority or the Human Rights Ombudsman Office, among others-.

This was conducted by submitting a questionnaire requesting the corresponding evidence to prove the existence of the internal control components. It was oriented to know the level of institutional goals compliance, as well as the risks associated with corruption.

The internal control frameworks, as established in the Federal Public Sector entities, were compared to the COSO framework, since it is considered the best practice regarding internal control.

COSO 2013 establishes three categories of objectives that allow organizations to address different aspects of internal control: operations, reporting and compliance. In addition, it includes five components: Control Environment, Risk Assessment, Control Activities, Information and Communication, as well as Monitoring, likewise, it envisages 17 principles based on these components, and 87 points of focus. This framework highlights the linkage among all these elements.

The assessment was carried out through the application of general surveys adapted to the institutions particular features. The participants were given a 15 day-deadline to submit their responses and provide the corresponding supporting evidence.

37 questions, based on the five components and the 17 principles of COSO, were formulated. Their purpose was to verify the existence of evidence supporting that internal control elements were actually operative in the participating institutions.

The assessment on the institutions' responses as well as on additional evidence was made by using a quantitative model. Given the particular importance of the five COSO components and their interaction, each was weighed with a 20-point value, for a total of 100 points.

Once the questionnaires were answered, two different sets of scoring were used: the first one was the result of the self-assessment of the institution for each item; the second one was the evaluation as carried out by the Superior Audit Office of Mexico. The latter was based on the questionnaires responses and provided evidence.

Both sets of scoring for the five COSO components were added up individually; the final outcomes were classified using a 0 to 100-point scale. Three levels were established: Low (0 – 39 points), Medium (40 – 69 points) and High (70 – 100 points).

Likewise, each component was scored in a 0 to 20-point scale: Low (0 – 8 points), Medium (9 – 14 points) and High (15 – 20 points).

It is worthwhile to point out that there are important differences between the self-assessment score and the one stemming from the Superior Audit Office evaluation, specifically the average of the former was 65 points and the latter amounted to 35 points. From our perspective, the resulting gap can be regarded as the initial opportunity areas for the assessed institutions to improve their internal control frameworks.

According to the scores given to the 290 institutions by the Mexican SAI, as of December 2013, 211 (73%) were ranked in the Low level, 75 (26%) in Medium, and 4 (1%) in High.

In general terms, the most relevant shortcomings are due to a lack of awareness on internal control and risk management. Besides, the existence of an integrity and ethics framework is not an actual reference for the members of the assessed entities in their day-to-day operation. In this sense, promoting capacity building in such fields is deemed necessary.

Assessment Outcomes Reporting

An individual report for each assessed entity was prepared and sent directly to the corresponding institution head. The final version of this document incorporates the result of a dialogue and clarification process with the evaluated bodies. Moreover, a consolidated report was prepared to be submitted before the Congress.

In order to conduct a follow-up process, we have held 215 meetings with 154 institutions out of the 290 included in the assessment, aiming at providing assistance to implement improvement programs for their internal control systems. Specifically, we facilitated technical support on institutional risk management, ethics and integrity.

Reactions

A positive and collaborative reaction stemmed from those responsible for the institutions' internal controls. We have taken advantage of this attitude and disseminated our Technical Study for the Integrity's Promotion in the Public Sector

We have decided to carry out an evaluation on integrity within the public sector in 2015, based on the aforementioned Study. Likewise, we can point out that several institutions of the Judiciary Branch are already working on the development of internal control general standards, suited to their particular needs and circumstances.

Dissemination of the internal control within Mexico

The problems that have been determined within the federal public entities also take place at subnational level. In the case of Mexico, there is an additional challenge which needs to be addressed: the level of independence and technical development of local SAIs are compromised and have a large room to be strengthened.

In this context, in 2010 the Superior Audit Office proposed the creation of a National Audit System, in order to coordinate and harmonize the auditing endeavors at all levels, and to standardize the technical capacities of all auditing bodies of Mexico. One of the main tools to attain these goals is precisely the promotion of ISSAIs.

It pursues the participation of all auditing entities including Supreme Audit Institutions as well as internal audit bodies.

We believe that this holistic approach will allow the creation of a network of coordinated actions, information exchange and capacity building exercises which will result in a robust auditing capacity, combining the strengths of the internal and the external auditing perspectives.

The System is currently in its consolidation process. Its functioning relies on a structure of different Working Groups which includes representatives of all parties involved.

The topics addressed by these groups are the following: system strategic planning, ISSAIs implementation, public servants accountability and, in order to develop a more coherent internal control framework, a Working Group entrusted with the mandate of developing and strengthening the internal control systems at all governmental levels. Moreover, another objective is to promote the assessment internal control by subnational SAIs.

It was also decided that the survey methodology used by the Superior Audit Office for its evaluation of internal control situation on the national government would be provided to the subnational Supreme Audit Institutions, so they could perform a similar analysis to the institutions within their scope.

This Group is responsible for outlining a strategy to homologate the internal control regulations applicable to national and subnational public bodies. This project is also aimed to ensure the coordination among auditing entities to carry out assessments on internal control systems. In particular, based on COSO 2013, the SAI of Mexico is making the draft versions of the Internal Control General Standards for the state and municipal scopes, which will be presented to the responsible bodies for their issuing.

Conclusions

This effort, undertaken by the Superior Audit Office of Mexico, goes along the lines of the value and benefits of SAIs INTOSAI framework, since by promoting the strengthening of internal control systems, we are contributing to the improvement of the public sector functioning.

This approach has proven to be very useful in terms of our public image, given the high demands of stakeholders and the media for our SAI to demonstrate a concrete role on the fight against corruption. One of the benefits which can be reaped from internal control systems is the reduction of the likelihood for fraud and corruption events to take place.

The reaction from government agencies generates a genuine positive expectation -at least in the mid-term and long run- that management culture in the Mexican public sector is likely to improve.