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Sub -Theme 2: Public Finance Management Reform: Trends and Lessons Learned

As you may be aware, Mexico will be looking after the technical theme II for the next INTOSAI Congress. The title of the theme is *The Role of Supreme Audit Institutions on Safeguarding Long-Term Sustainability of Finance Policies*.

Besides being an honor for the SAI of Mexico, this represents a great opportunity to come up with valuable recommendations for INTOSAI community on fiscal policy sustainability.

In the document prepared by Mexico, we have included the concept of financing development which comprises the set of decisions and actions taken by the national government (Legislative and Executive branches) to obtain the revenues that allow the funding of development policies and programs.

In its turn, the concept of financing development encompasses three elements:

a) Fiscal Policy.

Fiscal Policy involves decisions and actions adopted by the national government relevant authorities, regarding the management of revenues and expenditures to achieve economic and social objectives in a given period of time.

b) Monetary Policy.

Monetary Policy involves all decisions and actions on money supply, interest rates, exchange rates and, in some countries, it involves sovereign debt. In all cases it is based on the mandate of the central bank to attain price stability.

c) Public Debt Policy.

The public debt policy integrates the decisions and measures to finance fiscal deficit and public spending, as well as those to manage the debt service in the internal and external financial market.

I will highlight two issues which have a strong link with the public finance management: public debt and public finance sustainability.

1. Public debt.

There is a connection between fiscal policy (public revenue and expenditure), and public debt policy. These policies allow obtaining the necessary financing for the implementation of public programs aimed at achieving the established objectives in the national development planning.

The role of Supreme Audit Institutions on these topics has become a critical variable for the construction of credibility and trust on our work.

INTOSAI, by means of the efforts of both the Working Group on Public Debt, chaired by the Superior Audit Office of Mexico, and the Task Force on Financial Crisis, chaired by the Governmental Accountability Office of the United States, has emphasized that SAIs should play an active role in protecting the financial condition of governments by helping to ensure that sound and robust public debt practices are in place, as well as sufficient regulation on financial markets. Furthermore, SAIs should encourage governments to focus more on vulnerability monitoring and give high priority to risk management.

Specifically, the Working Group on Public Debt has issued official products which now are part of our ISSAIs, and that should be taken into account by all INTOSAI community when conducting public debt audits.

It is paradoxical that most of these guidelines were published before the world financial crises that occurred in the last decade. This brings up a natural question as to whether there is a real value and impact of our working group outputs, for the INTOSAI community.

There might be five different possibilities in relation to the usage of the ISSAIs on public auditing and which could explain -at least evidence seems to demonstrate it- the lack of preventive measures assumed by Governments as a result of audit findings and recommendations carried out by our SAIs:

- (1) INTOSAI community is not aware about the existence of ISSAIs and products prepared by the Working Group on Public Debt;
- (2) SAIs are aware about the ISSAIs but their remit does not allow them to conduct public debt audits;
- (3) SAIs are entitled to carry out public debt audits but they do not count on the institutional capacity to duly fulfill their tasks;
- (4) SAIs have been using the ISSAIs on public debt and they have presented recommendations alerting on the risks on public debt management; however, Congress and Government do not take into account the SAI's findings.
- (5) SAIs have presented recommendations to Parliament which have been satisfactorily considered and implemented, but such SAIs have not properly disseminated the successful impact of their work among INTOSAI community.

Whatever the case may be, we should bear in mind all these possibilities so as to determine the best way to face them.

Strategies such as INTOSAI Communication Policy and the Framework for Promoting and Communicating the Value and Benefits of SAIs are meaningful references for SAIs to raise the awareness on the importance to use ISSAIs; to look for a new relationship with the Congress with the aim to open the possibility to strengthen the legal framework of SAIs; to set up a communication and outreach policy before the Congress and society, to highlight

the importance of supreme auditing, and, to certain extent, to generate incentives for SAIs' audit results to be taken into account.

2. Public Finance sustainability.

The stability and sustainability of public finance in the medium term and long run are necessary but not sufficient conditions, to satisfy the needs and problems of the society and the economy, within the legal and institutional framework of each country.

One of the principles underlying fiscal policy is to provide adequate incentives for economic agents to take advantage of the opportunities and potentiality of economic competitiveness in each country, in consistency with the aim of social welfare.

Fiscal policy is generally executed in an annual perspective although some components may have a multi-year perspective, such as infrastructure investment and debt service.

In the designing of fiscal policy, medium term and long run projections are used, so as to consider the dynamics of economic cycles, as well as the global economy variables to which national production factors are exposed.

Therefore, in addition to ex-post auditing on public finance, medium term and long run perspectives should be assessed in the context of economic cycles, in order to analyze the elements and circumstances that allow considering possible scenarios on the behavior and forecasts of the stability and sustainability of public finance through time.

The fluctuations in an economy, known as economic cycles, have led different countries to establish fiscal rules in order to regulate fiscal policy decisions in accordance with the dynamics of these cycles and their expected effect on revenue and public expenditure.

3. Risks evaluation

If we aspire to establish a reform of the public finance management, it is essential to consider the fiscal risks that are faced by governments. The legal frameworks and regulations must incorporate, even implicitly, the risks identification, as the first step towards an effective financial management.

It is important to consider that effective risks management increases the effectiveness of the government programs by mitigating the volatility of the public income and expenditure.

We can establish that public risks stem from possible economic rights and obligations of the **State**, which have arisen from past events, depending on uncertain future events. The **probability** that the event occurs and the **amount** that the **State** pay or receive, are not entirely under its control.

The risks can be manifested as differences between the obtained and estimated results in the State budget and other official forecasts. In particular, we must remember **macroeconomic risks, public debt and contingent liabilities.**

4. Role of the Supreme Audit Institutions

The SAIs must intensify efforts, in their respective countries, for the audit work to reach its proper place in the state framework and that the audited entities assess their importance as a positive tool for its operation, especially regarding government financial management.

In order to properly operate, a SAI must maintain its autonomy and independence, regarding the audit entities, and to any influence or group interest. The power derived from these principles can provide supreme audit institutions a relevance on the decision making process and a considerable influence in the public affairs.

An additional element that we must consider is to pass on the value and benefits of our work. Our labor must be communicated in a simple and effective manner. We must deliver relevant information – in audit reports – for the public decision making, in order to improve governmental management and for the average citizen to know its government finance status.

Thank you very much.