

OECD Public Governance Reviews

Auditing Decentralised Policies in Brazil

COLLABORATIVE AND EVIDENCE-BASED APPROACHES FOR BETTER OUTCOMES



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Foreword

In the wake of the current economic, health and climate crisis, governments face long-term and complex economic, social and environmental policy challenges. A systemic understanding of what works is critical in addressing these difficulties. Supreme audit institutions (SAIs) have untapped potential to help governments meet these challenges. SAIs can provide a comprehensive, crosscutting view of how processes and programmes function across government. Through their objective analysis, they can strengthen the evidence base for policy decisions, ensuring citizens receive value-for-money.

The Brazilian Federal Court of Accounts (*Tribunal de Contas da União*, TCU) recognises this role and has partnered with the OECD since 2013 to realise its inherent potential. Previous reports, including *Brazil's Federal Court of Accounts: Insight and Foresight for Better Governance* and *Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight*, showcase the work and longstanding partnership between the OECD and TCU. Above all, these reports highlight common opportunities for SAIs, including the TCU, to strengthen their capacity to induce change in government through audits, evaluations and advisory work that takes into account the entire policy cycle, with the ultimate goal in mind—better policies for better outcomes.

In Brazil, delivering on the results of policies and programmes requires co-ordination between federal and subnational governments, who share responsibility for achieving policy goals. This includes the Sustainable Development Goals (SDGs), the success of which depends on institutions at national and regional levels. Nonetheless, the country's highly decentralised federal system faces tightening fiscal constraints and growing social demands to reduce disparity of service delivery across diverse regions. This context underscores the need to ensure greater efficiency and effectiveness in the delivery of decentralised policies to help improve equity across regions.

Ensuring efficiency and effectiveness is not just a responsibility of government and public sector management. SAIs and other institutions with mandates to hold government accountable have the same responsibility. Recognising the need to lead by example, the federal, state, and local courts of accounts in Brazil (*Tribunais de Contas*, TCs), with the OECD's support, sought to improve the effectiveness and efficiency of their oversight of decentralised policies. In 2018, the OECD and TCU launched a new project to this end, bringing together 33 TCs in an effort to enhance the way they work together. The TCs chose education as the most promising area to pilot the innovative ideas captured in this project.

This report describes the results of three years of collaboration between the TCs and the OECD, drawing on a multi-disciplinary team of auditors and experts. The report details the results of extensive desk research, workshops in Brazil with TCs that also brought in peers from other countries to share experiences, interviews with key stakeholders, questionnaires and countless discussions in working groups to develop a pioneering approach making better use of evidence and indicators to collaboratively select audits. This report also details strategies for improved collaboration mechanisms among audit institutions, as well as tools to assess challenges and opportunities to improve multi-level governance. It will guide TCs in implementing the approaches described in this report in 2021.

Much of the value of the project was in the process itself. The project offered a constructive platform for bringing people together from audit institutions across Brazil, with a single purpose and a shared commitment to improving the impact of their work. This collaboration, along with the ideas and approaches described in this report, can serve as inspiration for other SAIs that face similar challenges to promote policy coherence in decentralised contexts and strengthen co-ordination among audit bodies. By applying these co-ordinated and collaborative approaches, external audit at different levels of government can be a coherent voice, promoting better governance of decentralised public policy and fortifying citizens' trust in government.

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Abbreviations and acronyms

ABRACOM	Brazilian Association of Municipal Courts of Accounts
ACA	Austrian Court of Audit
ACAG	Australasian Council of Auditors-General
ADE	Education Development Arrangements
AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
ANA	National Assessment of Literacy
ASF	Supreme Audit Institution of Mexico
ATRICON	Association of the Members of the Brazilian Courts of Accounts
BNCC	National Common Curricular Basis
BRL	Brazilian real
CAQ	Cost Pupil Quality Index
CNE	National Education Council
CNJ	National Council of Justice
CNMP	National Council of the Public Prosecutors
CONACI	National Council of Internal Control
CONAE	National Education Conference
COPEM	Co-ordination of Cooperation with Municipalities
CREDE	Regional Education Development Co-ordinators
CRTC	Regional and Territorial Chambers of Accounts of France
DNB	De Nederlandsche Bank
DRE	Regional Education Boards
ENEM	National Secondary Education Examination
EUROSTAT	European Statistics
FNDE	Fund for the Development of Education
FNE	National Education Forum
FPE	State Participation Fund
FPM	Municipality Participation Fund

FTA	Fault Tree Analysis
FUNDEB	Fund for the Development of Basic Education and Appreciation of Teachers
FUNDEF	Fund for the Development of Primary Education and Appreciation of Teachers
GDP	Gross Domestic Product
GIS	Geographic Information System
IBGE	Brazilian National Statistical Office
ICMS	Brazilian Value-Added Tax
IDEB	Basic Education Development Index
IDHM	Municipal Human Development Index
IEGE	State Management Efficiency Index
IEGM	Municipal Management Efficiency Index
INDICON	National Network of Public Indicators
INEP	National Institute for Educational Studies and Research
INFOCONTAS	National Strategic Information Network for the External Control
INTOSAI	International Organization of Supreme Audit Institutions
IQE	Quality of Education Index
IRB	Rui Barbosa Institute
ISSAI	International Standards of Supreme Audit Institutions
LDB	Law of Directives and Bases of National Education
LGSNA	General Act of the National Anti-corruption System of Mexico
MEC	Brazilian Ministry of Education
MLG	Multi-level Governance
NAO	National Audit Office of the United Kingdom
NCA	Netherlands Court of Audit
NRA	National Risk Atlas of Mexico
OAG	Office of the Auditor General of Canada
OCEXs	External Control Bodies of the Autonomous Communities of Spain
PAIC	Literacy at the Right Age Programme
PAR	Co-ordinated Action Plan
PDDE	Direct Money at School Programme
PISA	OECD Programme for International Student Assessment
PNAE	National Programme of School Meals
PNATE	National Programme to Support School Transportation
PNDR	National Policy for Regional Development
PNE	National Education Plan

PNLD	National Programme of Textbooks
PROMOEX	Programme for the Modernisation of the External Control System
SAEB	Evaluation System for Basic Education
SAI	Supreme Audit Institution
SecexEducação	TCU Education Secretariat
SFP	Ministry of Public Administration of Mexico
SIGEN	Comptroller General of Argentina
SIOPE	Educational Public Budget Information System
SNE	National Education System
SNF	National Auditing System in Mexico
SSG	Strategic Scrutiny Group of Scotland
TCE	Brazilian State Courts of Accounts
TCM	Brazilian Municipal Court of Accounts
TCU	Brazilian Federal Court of Accounts
UNDIME	National Union of Municipal Education Managers

Executive summary

Decentralised policies need adequate multi-level governance

Public policies that provide key services to citizens, such as education, health, welfare, infrastructure and sanitation, are increasingly developed and delivered involving different levels of government. The expectation is that this decentralisation will lead to better local public service delivery through greater citizen engagement and local accountability. For effective delivery of decentralised policies, adequate multi-level governance conditions are needed, such as a fiscal framework, regulatory processes and local capacity. The lack of effective multi-level governance can lead to gaps, duplication and overlap in policy delivery. This not only results in poor value for public money, but also opens the door to regional disparities in the delivery of public services and the potential undermining of citizens' trust in government.

Decentralised policies are difficult to audit

Supreme audit institutions (SAIs) are crucial stewards of accountability and builders of trust in government because they provide independent oversight, insight and foresight for the spending of public money and the performance of policies. Beyond their role in public accountability, SAIs have the potential to provide an evidence-based and crosscutting view for parliaments, centres of government and citizens about what works and what does not work in public policies. In a decentralised context, SAIs face complex challenges in fulfilling this role. With many local and regional governments involved in policy design and service delivery, SAIs must gather evidence on policy outcomes across different levels of government. Moreover, to identify issues in policy delivery across levels of government, SAIs also need to assess the multi-level governance system associated with the decentralised policy under scrutiny. The challenge can be even greater in countries where, in addition to the SAI, multiple subnational external audit bodies exist with mandates to audit regional and local government.

Auditing decentralised policies in a decentralised audit system: the case of Brazil

Brazil is a federal country with a high degree of local autonomy. All levels of the Brazilian government share responsibilities for decentralised policies in healthcare, education, social security, welfare, housing and sanitation, among others. Regional disparity in the delivery of these services is especially prevalent in Brazil, while multi-level governance arrangements, crucial for ensuring effective co-ordination in the case of decentralised policies, are highly fragmented.

Similarly, the external audit system in Brazil, composed of 33 courts of accounts, is decentralised across levels of government. The Federal Court of Accounts (*Tribunal de Contas da União, TCU*) is responsible for scrutinising the federal budget and resources, including federal funds transferred to states, the federal district and municipalities. The 26 state courts of accounts (*Tribunais de Contas do Estado, TCEs*) are responsible for auditing at the state level, and in 23 states, for auditing the municipalities as well. In

addition, there are 6 municipal courts of accounts (*Tribunais de Contas dos Municípios, TCMS*) responsible for exclusively auditing municipalities.

Key recommendations

In this landscape of fragmented multi-level governance and overlapping mandates within the audit system, the OECD and Brazil's Courts of Accounts—collectively called TCs—sought to improve their performance, impact and relevance, through improved collaboration and more co-ordinated oversight of decentralised policies. The OECD and TCs carried out this effort under “Project Integrate” (*Projeto Integrar*), which led to recommendations for TCs to strengthen tools and practices in three key areas: collaboration, using indicators in audit selection, and assessing multi-level governance in audits. The recommendations in this report, though developed for and with Brazil, are also relevant for other SAIs that oversee decentralised policies and programmes, involving federal and subnational governments.

Collaboration and co-ordination among all external audit bodies

Systematically sharing knowledge and analysing information within the whole audit system—national and subnational levels—will allow the strategic selection of audits for greater impact, while respecting each entity's unique context, processes and mandate. TCU and TCs could establish a “national council of external audit,” or alternatively, strengthen existing networks to enhance collaboration and co-ordination among external audit bodies, focusing on the following priorities: 1) define the collaborative selection of audits as a strategic objective of the network; 2) develop a shared methodology for the prioritisation of audits; and 3) integrate the multi-level governance dimension as part of a pre-audit study or preliminary audit phase.

Collaborative strategic selection of audits based on evidence and risks

Taking into account regional variations in socio-economic conditions and policy outcomes is critical when selecting audits in decentralised policy areas in Brazil. Data and evidence at the local level are widely available in Brazil and can provide insights into differences among regions. TCs could systematise their risk-based audit selection practices by making better use of these data, develop a common method and build a shared risk-map. Specifically, TCs could select a limited set of available indicators, based on an outcome-oriented logic model of a decentralised policy, to create risk scenarios that would help explain and anticipate poor policy performance. This report provides detailed recommendations for creating and using this methodology to select audit topics. For *Projeto Integrar*, the TCs selected the field of education as the pilot policy area. Once the approach is an established practice, TCs could extend the method to other decentralised policy areas.

Systematic assessment of multi-level governance factors in audits

Effective auditing in a decentralised context requires TCs to take into account multi-level governance for each policy sector that will be audited. They can do that by developing a policy-specific multi-level governance assessment framework and using the framework to plan and design audits. This report recommends a generic multi-level governance assessment framework for Brazil with six dimensions that they can assess during an audit, including: 1) assignment of responsibilities; 2) funding of subnational responsibilities; 3) capacities of subnational governments and capacity building; 4) co-ordination among levels of government; 5) performance monitoring and transparency; and 6) fiscal equalisation systems and regional policies to reduce territorial disparities. In addition, the report recommends a specific framework for assessing multi-level governance in education in Brazil, including a methodology, questions and indicators to define maturity levels for each of these dimensions.

1 Auditing decentralised policies: The challenges for Brazil

This chapter looks at the issues facing external audit in tracking crosscutting issues and policies that are delivered through different levels of government. It first lays the groundwork by defining multi-level governance and noting trends in decentralisation. Then, drawing on OECD studies and best practices, it takes up the various aspects involved in auditing policy delivery in a decentralised landscape, placing the focus squarely on Brazil with its exceptional degree of local autonomy. Touching on the subject of public accountability, the discussion goes on to clarify the distinction between centralised and decentralised external audit structures, and between exclusive and complementary/concurrent mandates. After highlighting external audit challenges specific to Brazil, the chapter concludes with a roadmap of key priority areas for improving the audit of decentralised policies in complex accountability structures, with the emphasis on co-ordination among audit bodies.

Introduction

In many countries, policies and public services are increasingly developed and delivered through different levels of government. This is especially true of policies that deliver key services to citizens, such as those dealing with education, health, infrastructure and sanitation (OECD, 2017^[1]). While decentralisation might improve local public service delivery and lead to greater citizen engagement, it may also pose challenges for supreme audit institutions (SAIs) in terms of their ability to assess the entire policy cycle through following the chain of delivery.

SAIs wishing to present a view of how processes and programmes function across government may want to consider incorporating the multi-level governance dimension in their audits (see Chapter 3 for details on how that can be done).

The challenge can be more complex in countries where the external audit system comprises not only the SAI, but also multiple subnational external audit bodies with specific mandates to audit regional and local government. In such cases, decentralised policy areas may require strategic collaboration among those bodies, so that they can indeed deliver crosscutting views on the value that policies bring to the lives of citizens.

In Brazil, this combination of decentralised policy delivery through a complex system of multi-level governance and a decentralised external audit system is an established reality. The country's federal, state, and local courts of accounts may improve their own performance, impact and relevance, through more co-ordinated oversight of decentralised policies. This chapter introduces key concepts and challenges for decentralised policy making and delivery to set a foundation for subsequent chapters in the report and recommendations for the courts of accounts in Brazil to strengthen their auditing and co-ordination in a decentralised context.

Decentralised policy delivery and multi-level governance

Decentralisation generally refers to the transfer of powers and responsibilities from the central government level to elected authorities at the subnational level (regional governments, municipalities, etc.) having some degree of autonomy. Fiscal and institutional indicators both show that the overall trend in government around the world has been towards decentralisation (OECD, 2019^[2]) (see Box 1.1).

Box 1.1. Decentralisation trends

Much of the decentralisation that has taken place in the past decade has been motivated by political concerns. In Latin America for example, decentralisation has been an essential part of the democratisation process, as discredited autocratic central regimes are replaced by elected governments operating under new constitutions. In Africa, the spread of multi-party political systems is creating demand for a more local voice in decision making.

The transition economies of the former socialist states have also become massively decentralised with the crumbling of the old central apparatus. In many countries, decentralisation simply has occurred in the absence of any meaningful alternative governance structure to provide local government services. In some cases, and particularly in East Asia, decentralisation appears to be motivated by the need to improve service delivery to large populations and recognition of the limitations of central administration.

Today, regions and cities account for 40.4% of public spending and 56.9% of public investment in the OECD area. They play an increasing role in key policy areas linked to megatrends, such as transport, energy, broadband, education, health, housing, water and sanitation. They are responsible, for example, for 64% of environment and climate-related public investment.

Decentralisation trends around the world have gone hand in hand with an increase in metropolitan governance and the strengthening of regions. Municipal fragmentation has driven policies encouraging or imposing amalgamations and co-operation among municipalities. However, fragmentation still remains high in some countries. Municipalities having less than 5 000 inhabitants represent 44% of all municipalities in the OECD area. In ten countries, this ratio exceeds 80%.

The number of metropolitan governance authorities created, regardless of type, has especially increased since the 1990s. The rising role of administrative regions has also been striking: of the 81 countries that are measured by the Regional Authority Index, 52 experienced a net increase in the degree of regional authority since the 1970s. In parallel with decentralisation, there has been an increase in asymmetric decentralisation, i.e. governments at the same subnational government level having different political, administrative or fiscal powers. While asymmetric decentralisation would seem a more natural characteristic of federal countries, it is increasingly appearing in unitary countries.

Source: (OECD, 2019^[2]) (World Bank, 2020^[3]).

Reforms aiming at greater decentralisation must involve a shift of in the role of central governments: from a direct role in service delivery to one of enabling, advising and facilitating the work of subnational governments, while ensuring consistency. In a setting of shared responsibilities, decentralised policies must manage mutual dependence to achieve common objectives (OECD, 2019^[2]).

Decentralisation requires sound multi-level governance

Decentralisation is not just a simple increase in the power of local governments. The reality is much more complex, as in all countries most responsibilities are shared across levels of government. Independent of a country's degree of decentralisation, individual governments or government departments rarely have all the power and resources that are required to respond adequately on their own to policy challenges under their responsibility. It follows that, regardless of the degree to which policies are decentralised, different levels of government need to work together in order to achieve their objectives (Allain-Dupré, 2018^[4]). Decentralisation is, therefore, about reconfiguring the multi-level governance system.

Box 1.2. Multi-level governance: A definition

Multi-level governance refers to the interaction among levels of government and a broad range of stakeholders – including private actors and citizens – when designing and implementing public policies with a subnational impact. When observing these interactions it is important to note the conditions that make them work and produce the desired policy outcomes, in particular for decentralised policies. These conditions relate to the fiscal framework and financial management, as well as to the regulatory processes involved.

Equally important, the capacities of all levels of government, and particularly of those at the subnational level, are a key dimension of the multi-level governance system. Capacities here refers to the institutional arrangements, technical capabilities, economic resources and policy practices that affect policy outcomes, including the monitoring and evaluation processes linked to policy delivery, stakeholder engagement, and expertise.

Multi-level governance of decentralised policies is characterised by a mutual dependence among levels of government. It runs vertically, horizontally, and in a networked manner with a broader range of stakeholders (citizens and private actors), through greater citizen engagement and government's accountability.

Multi-level governance practices are part of every country's governance system, regardless of its degree of decentralisation and whether its institutional form is federal or unitary. These practices are strongly related to local and regional contexts; political conjuncture; and structural constraints, including countries' specific features such as geography, population, economy, historical and cultural context, constitutional arrangements, and organisational patterns. In this sense, multi-level governance practices must be flexible and reformed to enable public administration at all government levels to adapt continually to a permanently evolving environment.

Multi-level governance thus differs from “monocentric governance”; the latter refers to an approach in which the central government is the core of political authority and exercises its control over society, the economy and resources by setting, on its own, the agenda of societal problems and policy goals and means, and by top-down implementation of its policies. With its focus on activating relevant cross-level interactions, multi-level governance is considered to have greater potential to deal with complex, multi-scale, multi-sector problems.

Source: (OECD, 2017^[1]); (OECD, 2019^[2]); (Termeer, Dewulf and Lieshout, 2010^[5]).

There is evidence that when decentralisation is properly designed and implemented it yields a number of benefits, from improved local public service delivery and greater citizen engagement to reduced corruption and a positive impact on growth. This usually goes hand in hand with better co-ordination and alignment across sectors and stakeholders, and improved multi-level governance (OECD, 2019^[2]).

However, weak design/implementation of decentralisation and lack of appropriate multi-level governance may lead to suboptimal policy delivery due to gaps, duplication and overlap. This not only affects value for (public) money, but also may have consequences for delivery of public services and thus for the lives of citizens who depend on these services.

Decentralisation and multi-level governance in Brazil

Brazil stands out as an exception among federal countries, with a more prominent role played by municipalities, a high degree of local autonomy, and no hierarchical relationship between state governments

and municipalities. The 1988 Federal Constitution raised Brazilian municipalities to the status of federative entities, on equal footing with states and the federal level. Local governments are not subordinate to the federal government; municipalities are autonomous, although some municipal matters hinge on legislation of the municipality's state (Constitution of the Federative Republic of Brazil, Art. 21-24).

In Brazil, as is the case in all OECD countries, responsibilities for decentralised policies are shared among all levels of government – healthcare, education, social security, welfare, agriculture and food distribution, housing and sanitation, among others. Each level is autonomous in legislating and providing services, as long as these do not conflict with the powers exclusively provided or legislated by the Federal Union. The Federal Constitution explicitly reserves certain powers for the federal government while providing broad and general mandates to states and municipal governments. States are granted “all powers not otherwise prohibited to them” by the Constitution, whereas municipalities are assigned “the power to legislate over subjects of local interest” and to provide “services of local public interest” (Constitution of the Federative Republic of Brazil, Art. 21-24).

However, the Constitution also delineates a number of public policy areas where responsibilities are concurrently held by the federal government and the states, leading to overlaps among levels of governments. These areas include health, social protection, culture and sport, environment protection, and the protection of historic and cultural heritage (Constitution of the Federative Republic of Brazil, Article 24). Moreover, federal law usually sets general conditions that can be further detailed and regulated by the states and municipalities.

Multi-level arrangements are particularly crucial for ensuring effective co-ordination in the case of decentralised policies, which are highly fragmented in Brazil both from a vertical and horizontal perspective (OECD, 2013^[6]). On the horizontal level, Brazilian institutions tend to work mostly in-silo, meaning that each sectoral ministry has its own territorial vision and does not necessarily co-ordinate with other ministries. The result is that each ministry, state, agency or publicly owned enterprise pursues its own strategy and policy objectives, creating potential policy coverage and objective gaps.

Regarding the vertical dimension, two forms of multi-level arrangements are particularly common in Brazil – contract agreements and federative pacts:

- Agreements (*convenios*) and contracts are regularly used for co-operation among public institutions in Brazil. These standard contracts make it possible to clarify the responsibilities of each level of government: on the one hand, the co-ordination, regulation and financing roles of central government, and on the other the tasks to be assumed by the municipality.
- Federative pacts (*pactos federativos*) are sets of constitutional provisions established by sectoral ministries with leadership from the president's office, generally after consultation and negotiation with subnational governments. These bodies draw up a set of objectives, roles, responsibilities and financing arrangements in a specific policy area, for each level of government. When a sector is entitled to discretionary transfers, the federal ministry can make those transfers conditional on adherence to the pact. These pacts may be wide-ranging in scope; one example is the Health Pact passed in 2006. Currently, discussions are mainly oriented towards a federative pact to set up new rules overseeing federal, state and municipal budgets.

Some ministries have developed mechanisms on their own to ensure vertical co-ordination. This is the case for instance in the health sector, which is highly decentralised to state and municipalities. The Ministry of Health co-ordinates policy design and implementation through tripartite and bipartite commissions, including health representatives from the three levels of government that meet once a month (OECD, 2013^[6]). However, several initiatives at intergovernmental dialogue have been suspended in recent years (e.g. the Ministry of Cities and the National Council for Cities; the latter was in charge of implementing and monitoring the National Policy for Urban Development) (OECD/UCLG, 2019^[7]; Diario Oficial da Uniao, 2019^[8]).

External audit and decentralisation

The increasing trend toward shared responsibilities among levels of government over the past decades also has repercussions for accountability and audit. Having independent external audit is crucial in public accountability arrangements (see Box 1.3). Financial and compliance audits are necessary to assess the reliability of financial reporting and the regularity of the operations of national and subnational governments. Performance audits help both national and subnational authorities to be accountable for the effectiveness and efficiency of their policy delivery.

Box 1.3. Public accountability and audit

Accountability is the obligation of organisations and individuals to account for their activities, accept responsibility for their conduct with regard to those activities, and disclose results and outcomes.

Accountability takes place in a relationship between an “actor” and a “forum”, in which the actor has an obligation to explain and to justify their conduct. The forum can pose questions and pass judgement, and the actor may face consequences.

Public accountability is accountability in and relating to the public domain. Public accountability helps to instil confidence that the public sector is being managed appropriately. In administrative public accountability, the actors are public, semi-public or even private entities that are executing a public task or policy, funded by public financial resources. These entities may have to face multiple accountability forums, either in a hierarchical “principal agent” relation (e.g. parliament, municipal council, ministry), or a horizontal social accountability to stakeholders (e.g. public service users).

The relations between actors and forums in public accountability are institutionalised and laid down in rules, requirements and processes, constituting an *accountability arrangement*.

The hierarchical “principal agent” accountability relation comprises two main dimensions that shape its accountability arrangement:

- *answerability*: the obligation to provide information, clarification, explanation and justification
- *enforcement*: formal action against illegal, incorrect, inefficient or ineffective conduct of the accountable institution or public official.

Both answerability and enforcement require an adequate institutional setup at two levels: 1) internal mechanisms (within the bureaucratic chain of command); and 2) external oversight and control mechanisms.

Public sector audit institutions act as external oversight mechanisms; they help to create suitable conditions for accountability and reinforce the expectation that public sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.

The problems of many eyes and many hands

The “problem of many eyes” refers to the fact that public organisations are usually accountable to not just one but multiple forums, each with their own information requirements and (sometimes conflicting) criteria regarding expected conduct. This may pose complex administrative burdens on the entity and may undermine the efficiency and cost-effectiveness of its operations.

The “problem of many hands” refers to the opposite, namely that public accountability forums are confronted with multiple actors or entities, which are all contributing one element of the policy outcome or public service. It is then almost impossible for the forum to unravel who has contributed what and

decide on appropriate corrective action. This may pose a problem for supreme audit institutions, whose task usually is to provide the parliamentary forum with insight into the proper execution of government policies, so the government can be held accountable.

Source: Elaboration based on (OECD, 2020^[9]; OECD-SIGMA, 2017^[10]; Bovens, 2007^[11]; INTOSAI, 2019^[12]).

In general, external audit functions follow accountability arrangements. Decentralised responsibility goes hand in hand with multiple and decentralised accountability, exacerbating the “many eyes” and “many hands” complexity of public accountability (see Box 1.3). If the SAI is not able to follow and take part in these multiple decentralised accountability arrangements – for instance, because they are outside its jurisdiction – it will have tremendous difficulty providing a crosscutting view of policy performance.

Decentralisation and the external audit structure

External audit structures are an institutionalised element of government accountability arrangements, and as such are not prone to frequent change. They vary significantly from one country to another. In most countries, SAIs scrutinise the revenue and expenditure of public budgets at the central or federal level. The responsibility for external audit at the subnational level however, can differ considerably. Varieties of models are rooted in tradition, history, the administrative system, etc. In some countries, SAIs are mandated to audit local governments. In others, several external audit bodies, or even private sector audit firms, are responsible for auditing different levels of government. Still others have a mix of both (EUROSAI, 2020^[13]).

Overall, depending on the mandates of the Supreme Audit Institution and on the existence and mandates of subnational external audit institutions, external audit structures can be organised in a centralised or decentralised manner (see Box 1.4).

Box 1.4. Types of external audit structures

In June 2020, the OECD invited all 198 supreme audit institutions (SAIs) that are member of INTOSAI community to participate in an online survey, aiming to collect data on the role of SAIs in audit at the sub-national level and the coordination between SAIs and sub-national external audit bodies.

The short questionnaire was answered by the SAIs of 60 countries.

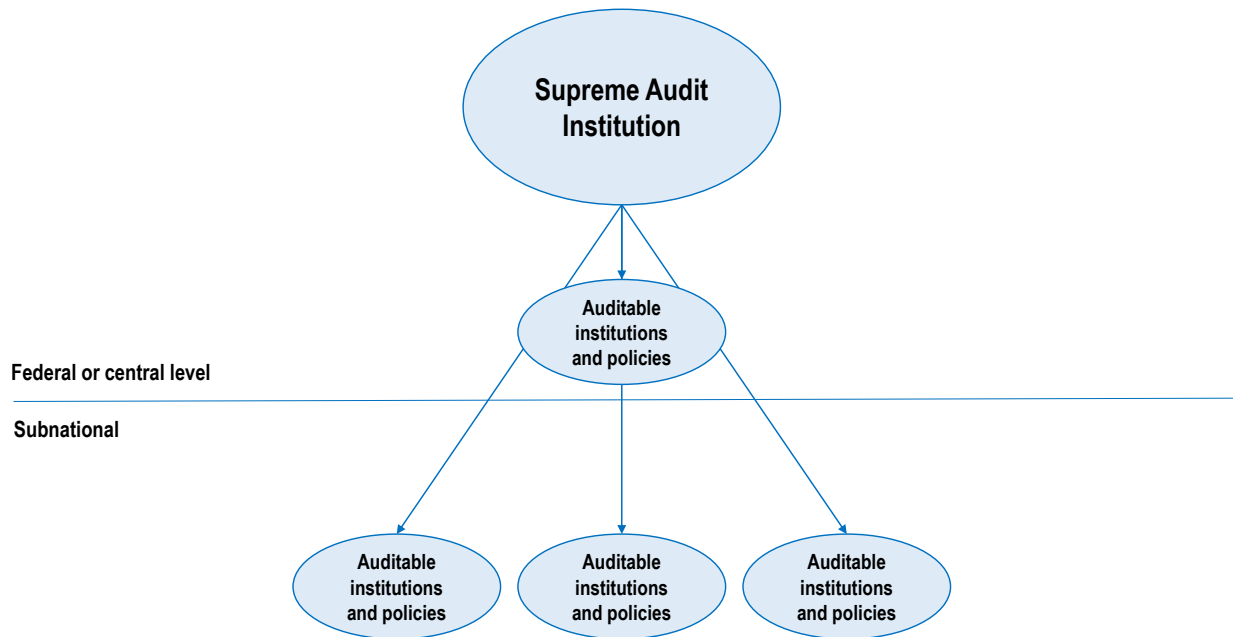
The responses enabled the identification of three main types of external audit structures:

1. centralised audit structures, with only one audit institution and no subnational autonomous entities (34 respondents – 57%);
2. decentralised audit structures – exclusive mandates, where multiple actors are responsible for auditing the different levels of government, but the SAI and subnational audit institutions have exclusive mandates (7 respondents – 12%)
3. decentralised external audit structures – concurrent or complementary mandates, in which the SAI has a mandate to audit local levels to some extent, and the audit bodies at subnational levels may have complementary or concurrent mandates (19 respondents – 32%).

Centralised external audit structures

A country has a centralised external audit structure when there are no subnational institutions to perform the auditing. The SAI centralises the external work, and as the system's main actor it does not share its external audit mandate with actors at any other level of government (Figure 1.1).

Figure 1.1. Centralised external audit structure



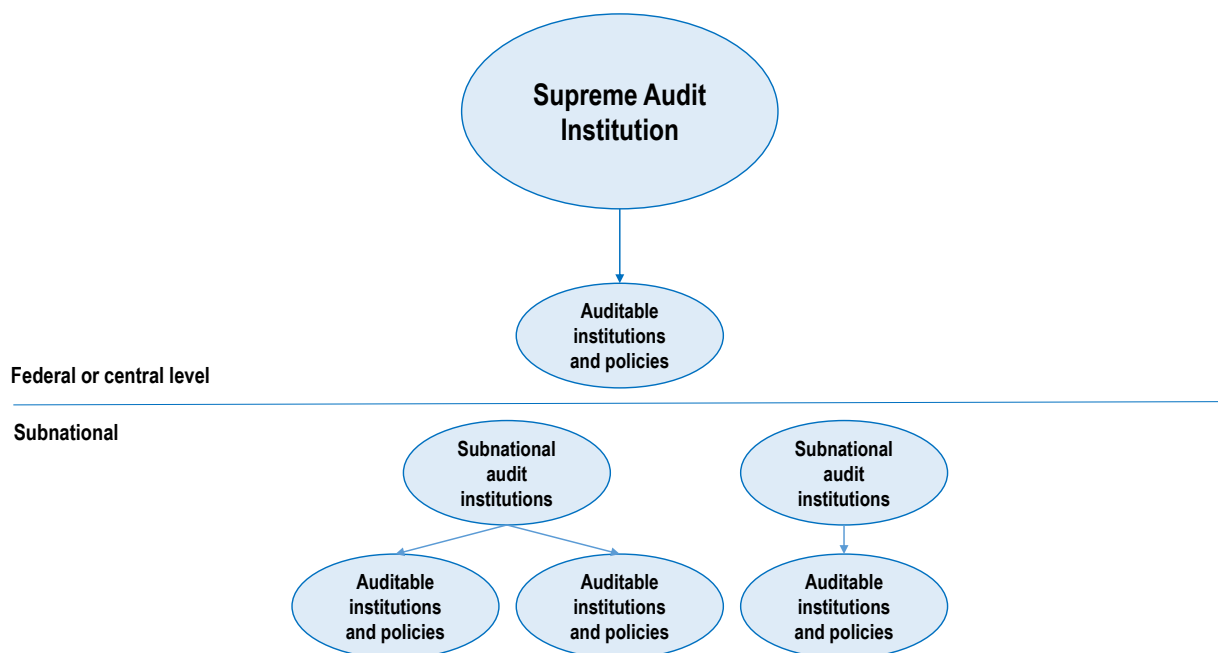
With this arrangement there is no risk of duplication or overlap in audit mandates, but rather a uniform approach to auditees and auditing policies across the different levels of government. In this model the transfer of powers and responsibilities from the central government level to elected authorities at the subnational level due to decentralisation, does not pose an inherent risks to auditing the full chain of policy delivery over multiple levels of governance.

The major risks that can arise in this system are the gaps in audit coverage at all levels of government due to limited resources, and geographical barriers that may make it difficult for the SAI to know the particularities of and challenges facing the local levels. Depending on the size of the country, SAIs might meet these challenges by establishing local offices, directly managed by the central office that can conduct the work on-site. This is the case for instance in Chile, Greece and South Africa.

Decentralised external audit structure – Exclusive mandates

In this structure, multiple actors are responsible for auditing the different levels of government, but the SAI and subnational audit institutions have exclusive mandates: the SAI has no mandate to audit the subnational levels of government, which is solely the responsibility of subnational audit institutions (Figure 1.2). This model is not very common. Countries adopting the structure include the Netherlands, Argentina and Lithuania.

Figure 1.2. Decentralised audit structure – Exclusive mandates



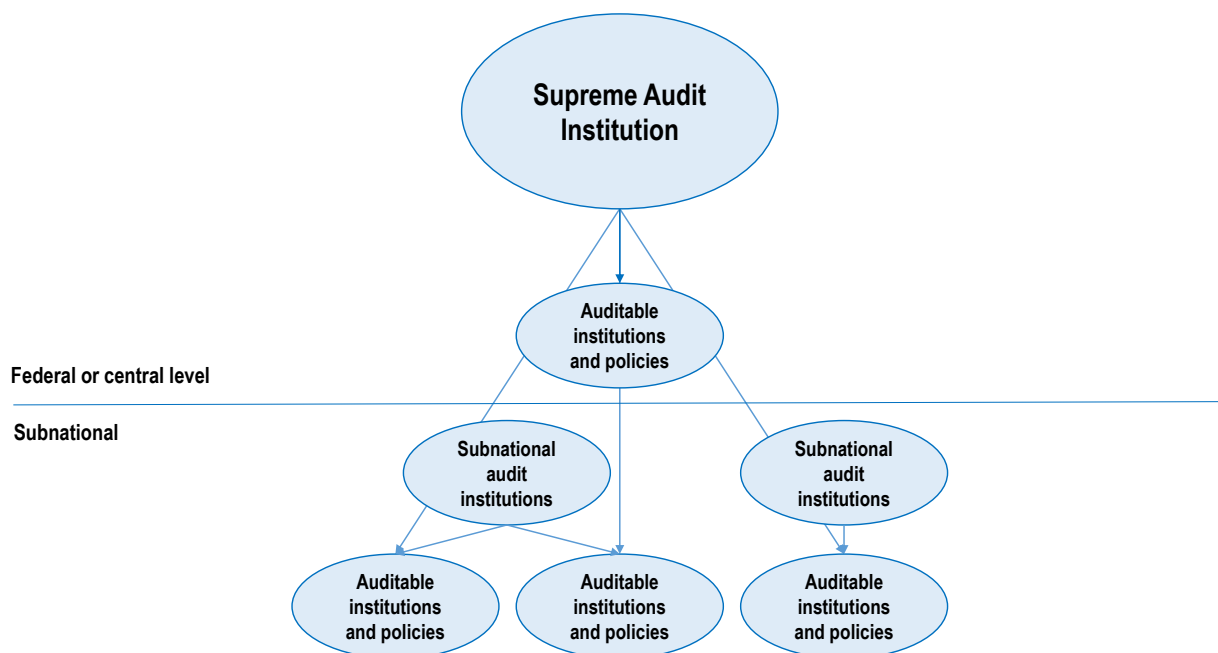
The specific mandate of subnational audit bodies differs depending on the country. For example, it may or may not include the instruction to carry out performance audits. In addition, the subnational audit institutions may be organised at the regional and/or local level. These entities are usually autonomous and decide independently on their own audit programmes.

Overall, while allowing for greater audit coverage when compared to centralised external audit systems, this system may lead to gaps in coverage when there is no uniform professional capacity at all levels of the audit system. Also, audit of public policies delivered through multi-level arrangements may be compromised, resulting in fragmentation of coverage. Co-ordination mechanisms are needed to overcome these challenges.

Decentralised external audit structures – Concurrent or complementary mandates

This type of external audit structure is also decentralised. The SAI has a mandate to audit local levels to some extent, and the audit bodies at subnational levels may have complementary or concurrent mandates. This structure is also relatively common within INTOSAI and exists in Brazil, Spain and Mexico.

Figure 1.3. Decentralised audit structure – Concurrent or complementary mandates



In this system, the subnational audit bodies are autonomous and may decide individually on their audit programmes. The extent of the SAI audit mandate at the subnational levels of government differs from country to country. Usually, the SAI has a mandate to audit central/national budget funds that are transferred to subnational levels (“follow the money” approach). In some countries, the SAI also has a mandate to audit national policies at the subnational levels, and subnational policies under certain circumstances.

This model may allow for greater flexibility and opportunities for audit institutions to promote greater audit coverage of auditees and policies, including the policies delivered through multi-level arrangements. To enable that however, the audit institutions must implement efficient co-ordination mechanisms to avoid duplication, gaps, and overlaps in the audit work.

Those three risks are present in both types of decentralised audit structures, particularly when central/national policies are delivered through decentralised mechanisms. In these cases the accountability arrangements may not match the external audit structure.

The decentralised audit system in Brazil

The external audit system in Brazil is composed of 33 courts of accounts, each court headed by a plenary college of judges who are members of the court and who take decisions jointly. The courts act at the three levels of government – federal, state and municipal. At the federal level, the Federal Court of Accounts (*Tribunal de Contas da União*, TCU) is responsible for scrutinising the federal budget and resources, as well as for (among other things) conducting audits at the request of the National Congress; overseeing federal public entities; and investigating complaints filed by citizens, political parties, associations or unions involving irregularities in the application of federal resources. The TCU is also responsible for overseeing the application of federal funds transferred to states, the federal district and municipalities.

The state courts of accounts (*Tribunais de Contas do Estado*, TCEs) are responsible for auditing at the state level. Each of the 26 states of the federation has its own court of accounts, which is financially independent and has full autonomy to manage its own structure and decide on its annual audit programme. The federal district has its own court as well.

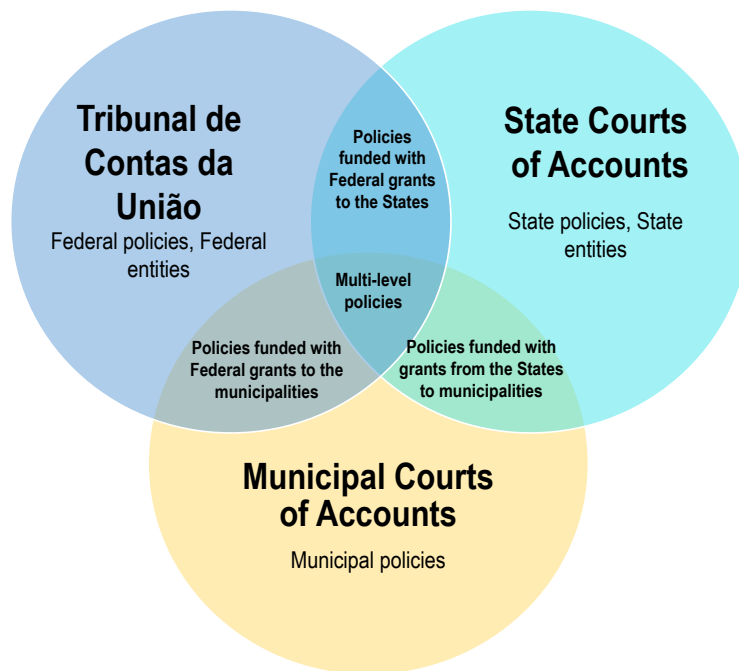
The TCEs are also responsible for auditing the municipalities of 23 states. In addition to TCEs, the states of Pará, Goiás and Bahia have established municipal courts of accounts (*Tribunais de Contas dos Municípios*, TCMs) responsible for exclusively auditing the respective municipalities. Moreover, two municipalities have established their own municipal court of accounts: São Paulo and Rio de Janeiro (respectively, the *Tribunal de Contas do Município de São Paulo* and the *Tribunal de Contas do Município do Rio de Janeiro*).

The organisation, size and structure of these courts of accounts (TCs) vary considerably from one institution to another. The composition of the plenary and technical bodies and the focus of audit work can also differ (e.g. TCs in the north of the country might have a particular focus on audits relating to environmental issues). The types of audits they conduct, however, do not differ as much. For the majority of TCs, compliance audits represented at least 90% of the total number of audits carried out in 2018, and only one TC reports that compliance audits represented less than 50% of the total number of audits (OECD-TCs Survey, 2020).

The mandates of the subnational courts of accounts are described in the Constitution of each state and further defined in the bylaws and internal regulation of each of these institutions. Overall, the majority of the Constitutions of the states and courts' bylaws replicate the provisions of the Federal Constitution applicable to the TCU – including article 71, VI that sets forth the TCU mandate over federal transfers. Therefore, in general terms each court of accounts is responsible for overseeing application of the funds transferred by the relevant level of government (e.g. a state) to other levels (municipalities or other states). Some Constitutions also delegate responsibility for the oversight of funds received from transfers by other levels of government (the case with the Federal District and the states of Minas Gerais and São Paulo).

Such provisions and mandates are necessary for the auditing of common multi-level arrangements in Brazil. These arrangements include, for example agreements (*convenios*), contracts that are regularly used for co-operation among public institutions in Brazil, and the federative pacts (*pactos federativos*), arrangements that include a set of objectives, roles, responsibilities and financing settlements in a specific policy area, for each level of government (OECD, 2013^[6]). The relevance of multi-level arrangements and financing in Brazil is demonstrated by the fact that tax and own-source revenue represented 34% of total municipal revenue in 2016 in Brazil, against 65% for transfers from the Union and state governments (compared with 44.5% and 37.2% respectively on average in OECD countries) (OECD, 2019^[2]).

Figure 1.4. Mandates of the courts of accounts in Brazil



TC mandates create a need for co-ordination structures and arrangements involving all actors of the external audit system in Brazil. In the absence of such arrangements, the mandates might lead to duplication, fragmentation and overlaps of audit coverage, particularly with policies delivered through multi-level arrangements.

Challenges and opportunities for auditing policy delivery in a decentralised system

Multi-level governance and policy delivery

Overlapping assignments among levels of government are repeatedly mentioned as a serious challenge in OECD territorial reviews and economic surveys. Decentralisation presents risks for policy performance when not adequately managed. In general, decentralisation presents challenges to subnational governments because it requires certain economic, political and administrative capacities that may not be present in smaller municipalities.

The fiscal dimension also presents challenges. One of those most frequently mentioned is misalignment of responsibilities allocated to subnational governments with the resources available to them. Unfunded and underfunded mandates – where subnational governments are responsible for providing services or managing policies but without the requisite resources – are also common (OECD, 2019^[14]).

High reliance on transfers of funds from central governments may also reduce subnational government incentives for responsible fiscal behaviour. Subnational governments need own-source revenues because these contribute to the accountability and efficiency of local public service provision. While a general rule for the optimal degree of tax autonomy is difficult to formulate, local authorities should rely on their own revenues for financing their services at the margin (OECD, 2019^[14]).

Another important challenge posed by decentralisation is that of assignments that overlap between levels of government. Lack of clarity in the assignment of responsibilities makes service provision and policy making costlier; it also contributes to a democratic deficit by creating confusion among citizens regarding which agency or level of government is responsible. Unbalanced decentralisation, where the various policy areas are decentralised in different ways, can also weaken regional development policies (OECD, 2019^[14]).

Decentralisation may result in the loss of certain economies of scale and fragmentation of public policies. This could happen especially if subnational governments are unable to co-operate with each other. Determining optimal subnational unit size is a context-specific task; it varies not only by region or country but also by policy area. National governments have an important role in establishing legal, regulatory arrangements and incentives to foster co-operation across jurisdictions, in particular within functional regions (OECD, 2019^[14]).

These challenges can have a considerable impact on the delivery and value for money of decentralised policies. When auditing the performance of decentralised policies that are delivered through different levels of governance, SAIs may take the opportunity to consider characteristics of the multi-level governance system that pose challenges to sub-national government levels and reduce their capacity of policy delivery. Chapter 3 describes how auditors may design and apply an audit framework for multi-level governance.

Decentralised policies and decentralised external audit systems

Gaining an accurate picture of the effectiveness and efficiency of decentralised policies can be especially difficult in decentralised external audit systems, due to gaps, overlap and duplication in the mandates of the external audit bodies within the system. Decentralised policies are often policies and services that affect people in their day-to-day lives: education, healthcare, transport, water management, sanitation, etc. Underperformance in these policies have immediate repercussions for citizens, while a well-functioning external audit system can make a real, positive difference in the lives of citizens.

Despite the different structures, roles and work of the SAIs and the regional or local external audit bodies, these institutions have the collective common purpose of promoting accountability and good governance (EUROSAI, 2020^[13]). In a context of decentralisation, there are shared areas of their work that offer opportunities for effective co-ordination and co-operation. Particularly, audit institutions might work in concert to audit policies that are delivered through more than one level of government.

The purpose is to put together a whole picture that will provide the centre of government with the insights needed to deliver the best possible outcome for citizens. Each external audit entity has a piece of the puzzle. Building the whole picture starts with collecting and putting all pieces of the puzzle together.

Building a shared understanding among the audit entities of decentralised audit systems about the risks of not delivering these policy outcomes is a good place to start a collaboration effort. Upon the elaboration of a shared risk map, audit entities could then work towards a strategic selection of audits and thereby amplify the impact of their work, collectively and individually.

By improving co-ordination among external audit institutions through a common risk-based approach to audit selection (see Box 1.5), SAIs can help address the challenges inherent in decentralisation, ultimately contributing to their added value. Chapter 2 describes a methodology for common audit selection through an evidence-based risk assessment.

Box 1.5. Audit selection by SAIs

Public sector audit institutions need to determine on a case-by-case basis which type of audit they will employ (performance, compliance, financial, etc.).

In order to decide on the annual audit programme, SAIs are required by International Audit Standards to base their selection of audit topics on a strategic planning process of analysing each of the potential topics and conducting research to identify auditable risks and problems. The relevant standard ISSAI 3000 further stipulates that techniques such as risk analysis or problem assessments can help structure the planning process. These activities, however, need to be complemented by professional judgement to ensure that they reflect the mandate of the SAI and that the topics selected are significant and auditable.

The ultimate goal of the audit selection process is to select audits that cover significant issues and that are likely to have an impact. Having impact refers to whether the audits are likely to significantly improve the conduct of government operations and programmes, e.g. by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving effectiveness, impact, or the benefits to society.

Source: (INTOSAI, 2016^[15]) (INTOSAI, 1977^[16]).

In order to increase the efficiency and impact of the collective audit work, audits undertaken by different bodies in the external audit system should be strategically aligned, at least to the extent possible given the specific remits and legal obligations of each audit body. Rather than relying on each entity's bottom-up audit selection, selection processes could be harmonised under a coherent strategic direction, which would be ideal.

In addition to reducing the likelihood of unnecessary gaps, overlaps and duplication of audit work – and increasing the exchange of knowledge – co-ordination among external audit institutions might also result in:

- improving and maximising audit coverage, with an increased focus on risk areas
- better-informed audits and consequently, more useful recommendations at all levels of government
- better understanding by all parties of the results of each other's work, which may have an impact on their respective future work plans and audit programmes
- more efficient audits based on co-ordinated planning and communication.

For that purpose, external audit entities might work on the specific design issues involved in building a co-ordinated network. Chapter 4 provides guidance on how external audit institutions can design and implement such networks.

A common and co-ordinated risk-based approach to audit selection is critical for overcoming the challenges of auditing in a decentralised audit system. This is an opportunity for SAIs to contribute significantly to improving the external audit system, not only by conducting better audits but also by taking the leading role and supporting structural improvements in auditing the public sector, as required by INTOSAI Principle 12 on the Value and Benefits of SAIs (INTOSAI, 2013^[17]).

Challenges and opportunities in Brazil

In Brazil, the size and complexity of the government and the existence of multiple actors with decision-making power at the three levels of government create challenges for maintaining policy coherence and guaranteeing effective policy performance.

As described previously, Brazil has an institutional and financial structure that is not only highly complex but also multi-level. This complex architecture, which poses challenges of gaps, duplication and overlap, can hinder the overall performance of the decentralised system. In addition, the country's external audit system is also extremely decentralised, exacerbating the challenges for decentralised policy delivery. Given this “double decentralisation”, collaboration through strategic selection and alignment of audits, including assessment of multi-level governance issues, may provide a way to counter the challenges.

Brazil has to deal with great regional disparity. Whichever socio-economic indicators are used to assess this disparity, the macro-regional pattern is always the same: the country's north and northeast areas have the worst rates, its central area has intermediate rates, and the south and southeast areas have the best rates (Silva, 2017^[18]). Key decentralised policies on education, health and infrastructure all have the objective of reducing this disparity, but the highly fragmented multi-level governance poses a huge challenge to equal delivery of these policies and reduction of regional inequality.

In auditing the effectiveness of these policies, the perspective from the regional level becomes crucial. When selecting audits in decentralised policy areas, gaining insights into territorial variation in socio-economic conditions and policy outcomes are key. Whenever available, evidence at the local level can provide this insight, when collected and analysed systematically. TCs are in a key position to provide this insight into territorial disparity of policy performance.

This is a potential strength of the decentralised external audit system in Brazil, if strong and strategic collaboration among TCs is established. Brazil could benefit from a comprehensive mapping of policies and programmes and their interactions at the multiple levels of governance. The TCU and the TCs can play an important role in collaboratively assessing the performance of policies or programmes that are delivered through multi-level arrangements.

Improving audits and the co-ordination of audit bodies in relation to decentralised policies: Key priorities

In relation to the challenges and opportunities described in this chapter, there are three key areas of priority.

Audit of decentralised policies requires the strong collaboration and co-ordination between all external audit bodies that have a role in auditing elements of policy delivery

National and subnational audit institutions can establish systematic collaboration and co-ordination with each other, with the objective of delivering to the centre of government insights on crosscutting improvements for the performance and cost-effectiveness of decentralised policies.

The collaboration of external audit bodies might focus primarily on the strategic selection of audits based on evidence and risks

SAls can share and analyse knowledge that will allow strategic selection of audits within the whole system—national and subnational levels—for greater impact, while respecting each entity's unique position and mandate. As part of this effort, SAls can develop a shared, outcome-oriented risk assessment method that is structured around indicators to facilitate sharing of knowledge and the selection of audits, using a common language and building a common risk map.

To ensure that audits take into account specific issues of decentralised policy making and delivering, SAls can systematically consider multi-level governance factors when auditing

Effective auditing in a decentralised context requires SAls to take into account multi-level governance for each policy sector that will be analysed and audited. A multi-level governance assessment framework can help SAls in taking a structured approach to pinpoint multi-level governance weaknesses, particularly when conducting performance audits.

The next three chapters in this report further elaborate on these three priority areas and recommendations specific to Brazil.

- Chapter 2 focuses on strategic audit selection through an evidence-based risk assessment.
- Chapter 3 describes the development of a framework that can be a common basis for assessing strength and weaknesses in multi-level governance during an audit.
- Chapter 4 describes strategies and structures for collaboration between external audit entities in strategic selection of audits.

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2 Towards evidence-based audit selection in Brazil's decentralised policy areas

This chapter begins with a look at the application of risk assessment in audit selection generally and the corresponding need for sound evidence. The focus then shifts to Brazil and education, describing the complexity of auditing in a decentralised policy area. The chapter points to the existing wealth of high-quality education data in Brazil, and shows how a logic model can be applied to the sector to select significant indicators and thereby identify potential problems in policy implementation. Risk scenarios are then described, as is their application in six-step process for risk-based audit selection. The chapter concludes by noting how IT can be a useful tool in supporting audit selection in Brazil.

Introduction

The audit universe, i.e. the number of auditable entities and topics, for supreme audit institutions (SAIs) is extensive. It consists of many policy areas, all with different policy objectives, and a multitude of entities and procedures. In decentralised policies, the different multi-level governance aspects of the policy delivery, in some cases combined with a decentralised external audit system, increase the complexity, as discussed in Chapter 1.

INTOSAI-P - 20 - Principles of Transparency and Accountability – states that “SAIs shall adopt audit standards, processes and methods that are objective and transparent” (INTOSAI, 2019^[1]). In addition to the audit work itself, this requirement can be extended to the audit selection phase. Where there is a collaborative selection of audits by multiple external audit bodies, a uniform risk-based approach is useful to install objectivity and – at the same time – simplify the complex environment in which selection takes place. A common approach also helps to develop a shared language that facilitates communication, transparency and learning among the different external auditors within the system.

Taking into account regional variations in socio-economic conditions and policy outcomes is supremely important in selecting audits in decentralised policy areas. When available, data and evidence at the local level can provide insights into differences among regions. As audit institutions, the *Tribunais de Contas do Estado* (state courts of accounts, TCEs) and *Tribunais de Contas dos Municípios* (municipal courts of accounts, TCMs) in Brazil are in an excellent position to systematically collect and analyse evidence that will shed a light on disparities in regional policy performance, help to identify risks and ultimately lead to improved audit selection. For their work to be effective however, systematic and strategic collaboration between them and the *Tribunal de Contas da União*, (federal court of accounts, TCU) while selecting audits of decentralised policy areas is critical.

A risk-based approach to audit selection

Risk assessment helps focus resources on key concerns

The audit selection process is a way to narrow down the possible audits in a structured way, in order to select audits within the existing capacity of the audit body that will have the highest impact. “Having impact” refers to whether the audits are likely to significantly improve the conduct of government operations and programmes, e.g. by lowering costs and simplifying administration, enhancing the quality and volume of services, or improving their effectiveness or the benefits to society (INTOSAI, 2016^[2]).

Audit programmes can be implemented through a robust, risk-based process that considers issues of key concern to society, as well as their materiality (OECD, 2016^[3]). International standards for selection of audits all, in one way or another, involve some type of risk- or problem assessment as (see Box 2.1).

Box 2.1. International standards for performance audit selection

Requirements for audit selection according to ISSAI 3000

“The auditor shall select audit topics through the SAI’s strategic planning process by analysing potential topics and conducting research to identify risks and problems” (ISSAI -3000/89).

“The auditor shall select topics that are significant and auditable, and consistent with the SAI mandate” (ISSAI -3000/90).

“The auditor shall conduct the process of selecting audit topics with the aim of maximising the expected impact of the audit while taking account of audit capacities” (ISSAI - 3000/91).

Guidance on audit selection, ISSAI - GUID - 3920: Assessing potential audit topics in terms of risks, materiality and problems identified

“The selection of audit topics can result from assessing risk, analysing problems and considering materiality. Risks are the likelihood and impact of an event with the potential to affect the achievement of an organisation’s objectives.”

Materiality relates not only to financial aspects, but also to social and/or political ones, such as the number of people affected by a law or reform, transparency, and good governance.

“In performance auditing, risks may involve areas of potentially poor performance that concern citizens or that will have a great impact on specific groups of citizens. An accumulation of such indicators or factors linked to an entity or a government programme may represent an important signal to the auditor, leading them to plan audits based on the risks or problems detected.”

Analysis of potential topics should consider maximising the expected impact of an audit.”

Source: (INTOSAI, 2019^[4]; INTOSAI, 2016^[2]).

Risk-based audit selection allows directing audit capacity and efforts to risk areas that are key among the many alternatives, thus optimising allocation of resources and addressing main issues. For audit bodies with limited resources, the risk-based approach is highly valuable for achieving the greatest impact. A risk map with identified risks and risk ratings can provide a good overview of the risks in the audit universe and thus facilitate the selection of audits (OECD, 2018^[5]) (see Box 2.2 for further definition).

Box 2.2. Risk and risk assessment

The concept of risk

Risk is an effect of uncertainty on objectives. An effect is a deviation from the expected. The deviation can be positive, negative or both, and can result in opportunities and threats.

A risk is formulated as an event that may happen (probability) and its consequences (impact).

Risk assessment

According to the *ISO Risk Management Guidelines*, risk assessment is a three-step process that starts with *risk identification* and is followed by *risk analysis*, which involves developing an understanding of each risk, the likelihood of these risks occurring, and the risk's severity. The third step is *risk evaluation*, which includes prioritising each risk.

Risk assessment can be qualitative and descriptive, such as a report, or quantitative, such as data analysis with numerical values for likelihood and impact of risk. The way in which risks are assessed and the form of the output should be compatible with entity defined risk criteria. There are various risk analysis techniques that may be used, such as those outlined in *IEC/ISO Risk management: Risk assessment techniques*:

- bow-tie analysis
- hazard analysis and critical control points (for assessment of health safety risks)
- strengths-Weaknesses-Opportunities-and-Threat analyses (SWOT)
- failure modes and effects analysis (FMEA)
- hazard and operability (HAZOP) studies that involve identifying potential deviations from the design intent
- scenario analysis
- structured what if technique (SWIFT)
- layers of protection analysis (LOPA) analyses that assesses whether a risk is controlled to an acceptable level.

All of these risk assessment techniques involve the basic principles of risk identification, risk analysis and risk evaluation.

Source: (OECD, 2018^[5]; ISO, 2018^[6]; IEC/ISO, 2009^[7]).

Sound risk assessment requires sound evidence

SAIs commonly apply some sort of risk or problem assessment to guide the audit selection process, drawing on their accumulated knowledge. The assessment is usually based on the auditor's field knowledge and professional judgement. As a result, there will be certain subjective elements involved in selection (Put and Turksema, 2011^[8]). Objectivity is one of the core ethical values of SAIs, and one of the main principles of professional auditing (INTOSAI, 2016^[9]). SAIs should reduce the subjectivity of the audit selection process in order to select the topics that will maximise the audit's impact for the citizens and maintain the trust of society.

SAIs can demonstrate accountability by explaining to stakeholders why the topics were selected. A risk identification process that is well documented and repeatable, with validated interpretation and not dependent on the individual auditor, is especially useful here. SAIs could also try to increase the objectivity

of the risk analysis undertaken for audit selection by making their selection evidence-based. This can include the use of quantitative and qualitative information to ascertain which auditable programmes or entities pose the greatest risk to the achievement of objectives (see Box 2.3 for the Canadian approaches to audit selection).

Box 2.3. Example of using evidence in audit selection: The case of Canada

The Office of the Auditor General (OAG) - the SAI in Canada - is responsible for auditing a vast range of activities conducted by the federal government and the three Canadian territories. These activities cover topics such as health, culture, the environment, finance, agriculture, transportation and scientific research.

To assist in determining areas to audit, the OAG conducts an analysis called “the strategic audit planning process”. There are three aspects to the process. One is to review entity performance reports and plans, risk analyses, sustainable development strategies, and key internal audit and programme evaluations, as well as parliamentary and other reports. A second one is to conduct interviews with entity management, key external stakeholders, non-governmental experts and entity officials to find out what they consider to be the areas of greatest risk. Finally, the OAG takes a strategic and risk-based approach to selecting performance audit topics.

Strategic audit plans, including the proposed audit topics, are discussed with the Auditor General and the Performance Audit Practice Oversight Committee, the body ultimately responsible for approving a two-year performance audit schedule. The plan is re-evaluated each year to ensure that the right audits are planned.

The information usually required to either validate a strategic audit plan or identify new risks and areas for audit can include, as necessary:

- review of media reports
- discussions with internal specialists
- review of internal audit reports
- meetings with chief audit executives
- interviews with departmental audit committee members
- review of entity tracking systems to assess the extent to which current and outstanding audit recommendations and entity commitments have been implemented
- review of parliamentary committee minutes and reports
- review of relevant audit reports of other jurisdictions (nationally and internationally)
- attendance at relevant conferences
- site visits.

Source: (Office of the Auditor General of Canada, 2019^[10]).

Guidance can be taken from ISSAI GUID 3920, which states that “In performance auditing, risks may involve areas of potential poor performance that concerns citizens or have a great impact on specific groups of citizens”. By considering areas that could well perform poorly, the scope of the risks is substantially reduced and the targeting of high-risk areas to audit becomes manageable. Data that may provide evidence for identification of these performance risks are very often collected by the government and available as indicators to be used for monitoring progress towards policy objectives. The evidence-

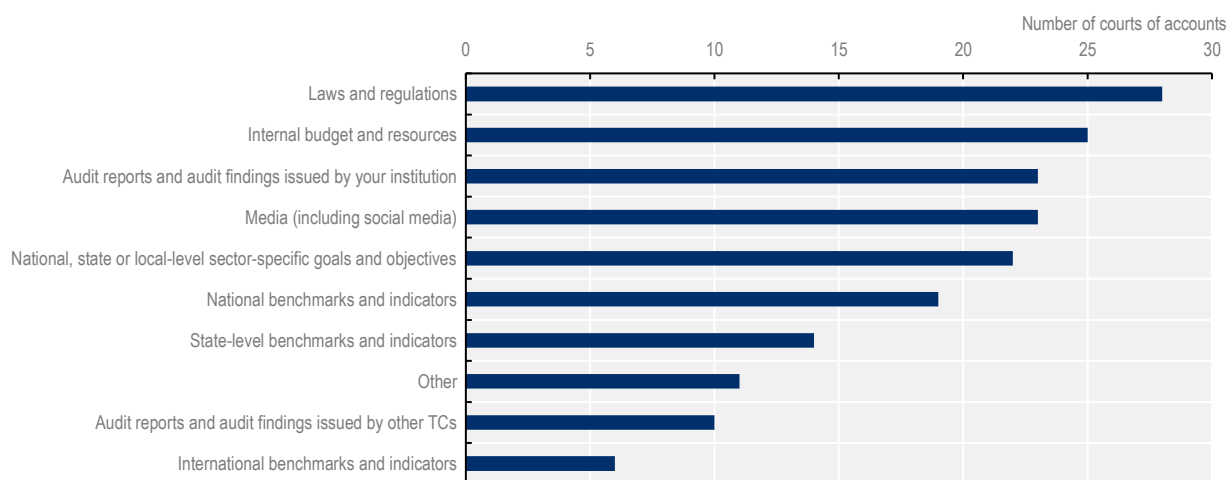
based audit selection process would ultimately produce a consolidated and objective picture of the main outcome risks for decentralised policies, guiding the external auditors in selecting and aligning audits.

Risk-based audit selection in Brazil is an evolving practice

The OECD surveyed the courts of accounts in Brazil to find out how they select audits and received 28 responses. The most common inputs used by the courts of accounts (*Tribunais de Contas*, TCs) for informing their audit selection process are laws and regulations that specify what TCs should audit and the frequency of those audits. The second most common factor considered is the internal budget and resources of auditees, which reflect a risk-based audit selection process focused on inputs rather than on outputs or outcomes. For instance, some TCs consider information on the percentage of an auditee's expenditure in relation to the municipality or state's budget, or in relation to the greatest expenditure of the municipality or state as "indicators of materiality." Only 10 — of the 28 — TCs reported using audit reports or findings from other TCs to inform audit selection, indicating a limited level of collaboration or sharing of insights among TCs when selecting audits.

Figure 2.1. Key inputs used to inform the audit programming of the Brazilian courts of accounts

Which of the following inputs does your institution use to inform audit programming?



Note: N=28. More than one choice allowed per respondent; in this question, "audit programming" is referring to the audit selection process as opposed to planning of individual audits.

Source: OECD Survey (2020).

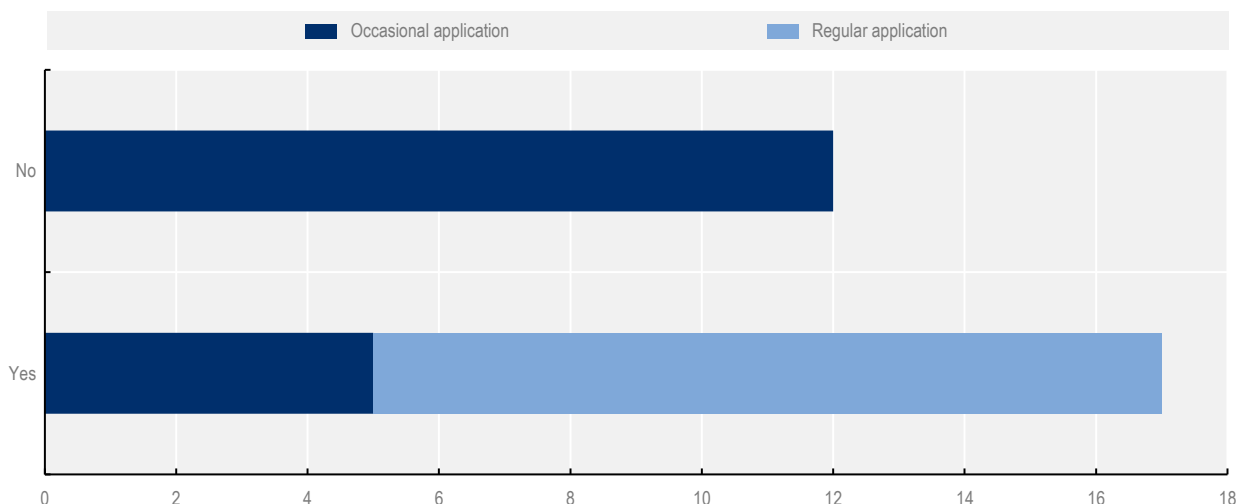
A number of TCs apply external indicators across the audit cycle (including for the audit selection), such as the Municipal Management Effectiveness Index (*Índice de Efetividade da Gestão Municipal*), the Human Development Index and demographic information. Some also consider information such as the number of irregularities found in previous audit reports, and assessment of the internal control of the auditees.

The majority of TCs in Brazil have a written policy for prioritising and selecting audits based on the assessment of risks (see Figure 2.2), but some TCs do not apply the policy regularly. According to officials from the TCs, some of the factors preventing them from regular application of the policy include:

- institutional and internal obstacles (e.g. internal organisation that prevents joint application of the policy at the state and municipal levels, lack of a risk assessment system, limited resources)
- external pressure (e.g. media, population, legislature, other control bodies) that may prevail over the policy
- issues related to the policy itself (e.g. outdated policy, its limited applicability, quality of the policy).

Figure 2.2. Risk-based audit selection policy in Brazil

Does your institution have a written policy or strategy for prioritising and selecting audits based on an assessment of risks?



Note: N=29.

Source: OECD Survey (2020).

Some TCs also maintain a risk registry for tracking the risks related to auditees or other policy-related risks in specific sectors. For example, TCE-Rio Grande do Norte uses software developed by the Ministry of Planning to support the monitoring of risks: the Ágatha System — Integrity, Risk and Controls Management System. Auditees' internal control units are responsible for updating this tool with information about auditees, and the TC uses system-generated reports for audit programming.

Approaches of the TCs towards the application of risk analysis in audit selection vary considerably. The use of indicators is not universal among TCs. Some apply advanced methods, such as analysis of budget data as described above, and others do not make any use of indicators. Co-ordination and collaboration in audit selection occurs on an ad-hoc basis, if at all, and are only the practice of those TCs that have the capacity for it. Developing a common and shared approach to risk-based audit selection provides an opportunity for TCs, particularly those with little or no experience with co-ordination or risk assessments, to modernise their practices towards greater alignment with international standards. A harmonised risk-based approach to audit selection, based on improved exchange of insights and evidence, can lead to more coherent and outcome-driven auditing of decentralised policies. Each policy area has its own context and set of challenges. To narrow the scope, TCs decided to pilot new approaches for risk-based audit selection and co-ordination in the field of education.

Education: A key decentralised policy area in Brazil

Education is a critical policy field and an area in which policy making and implementation are decentralised – to some extent at least – in nearly all OECD and partner countries. Accessible, high-quality education prepares citizens for life in increasingly knowledge-intensive societies and, in so doing, supports equal opportunity and social equity (OECD, 2018^[11]). In many countries, responsibility for education is shared between central, state or regional governments – which typically play a role in formulating educational policies, co-ordination and funding – and municipal authorities and individual schools – which organise and deliver educational services on the ground to citizens.

Education is one of the most important areas of decentralised policy in Brazil. Successive Brazilian governments have adopted ambitious national strategies - and committed substantial public resources - to improve the accessibility and quality of education across the country. Over the past decade, total public spending on education, from primary to the post-secondary, non-tertiary level, has risen to 4% of gross domestic product (GDP) (OECD, 2019^[12]). Brazil is thus one of the OECD member and partner countries that spends the most on education as a proportion of national wealth¹, although the country's comparatively low GDP per capita and young population mean that this translates into comparatively low spending per student. Spending on education accounts for over 10% of total public expenditure in Brazil (OECD, 2019^[12]) and over 20% of spending by sub-national governments (OECD/UCLG, 2019^[13]). The federal government's strategic focus on education is reflected in the National Education Plan (*Plano Nacional de Educação* - PNE), adopted in 2014, which sets specific educational goals for the period up to 2024 (Government of Brazil, 2014^[14]).

The need for attentive evaluations of policy and practice in education is all the more pressing given the considerable challenges Brazil continues to face in this field. The country has made great progress over the past decade in increasing access to education for its citizens. For example, the proportion of 3-5 year-olds enrolled in early childhood education and care increased from 60% in 2012 to 84% in 2017 and is now close to the OECD average of 87% (OECD, 2019^[12]). Enrolment rates in upper secondary education have also increased notably. However, major concerns persist about the ability of the public school system to deliver high quality education consistently across the country. Teacher salaries remain low in comparison to the earnings of other tertiary graduates, making it harder to attract talented individuals to the profession (OECD, 2019^[12]). Moreover, 15-year old students in Brazil continued to score well below the OECD average in reading, mathematics and science in the latest (2018) results of the OECD Programme for International Student Assessment (PISA). Only 2% of students performed at the highest levels of proficiency (level 5 or 6) in at least one subject (OECD average: 16%), and 43% of students scored below the minimum level of proficiency (level 2) in all three subjects (OECD average: 13%) (OECD, 2019^[15]).

At the same time, provision and oversight of public crèches and basic education² are a shared responsibility within the country's federal system of multi-level governance. While responsibility for providing strategic direction and a proportion³ of public funding lies with the federal government, constitutional responsibility for providing early child education and care (ECEC), primary and secondary education rests primarily with the states and municipalities. Moreover, states and municipalities may establish their own goals and political strategies for education. However, Brazil lacks external school inspectorates for basic education of the type seen in many OECD countries. This oversight gap highlights the critical role that TCs play, and can improve, to assess the country's progress towards national policy goals in education.

Education is a complex policy field for TCs to monitor and audit

Whereas conducting performance audits to assess outputs and policy outcomes is a challenge regardless of the sector, the challenge is all the greater with education. The multiplicity and diversity of actors involved in governing and providing educational services to citizens in Brazil exacerbates this challenge for TCs. As shown in Table 2.1, the 5 570 municipalities in Brazil are responsible for providing crèche services, pre-school and primary education (initial years of fundamental education) to a majority of children enrolled in these levels of education. Moreover, municipalities vary greatly in size, internal organisation, resources and administrative capacity. In lower secondary education (final years of fundamental education), enrolment in public schools is distributed equally between municipal and state school networks, which operate with limited co-ordination between them – adding another dimension of complexity.

Table 2.1. Enrolment by level of education and type of school (administrative category) in 2019

Level (theoretical ages)	Total enrolment 2018	Federal	State	Municipal	Private
Crèche (0-3 years)	3 755 092	0.03%	0.10%	65.29%	34.58%
Pre-school (4-6 years)	5 217 686	0.03%	1.06%	75.77%	23.14%
Fundamental Education (Initial Years – 7-11 years)	15 018 498	0.05%	13.13%	67.65%	19.17%
Fundamental Education (Final Years – 12-15 years)	11 905 232	0.13%	41.57%	42.86%	15.44%
(Upper) Secondary Education (All Series – 16-18 years)	7 465 891	3.00%	83.94%	0.54%	12.52%

Source: INEP Sinopse Estatística da Educação Básica - 2019 (INEP, 2019^[16]).

In this landscape, responsibility for auditing the use of public resources in education – and for assessing the degree to which policy objectives are being achieved – is shared between TCU and both state and municipal courts of accounts in each federal entity. The extent to which the different TCs actively conduct audits in the field of education depends, in part, on their internal priorities and capacities in the field. The multiplicity of actors involved in decision-making, policy delivery and oversight can complicate the identification of risks and their root causes.

In health policy measuring the outcomes of patients is largely uncontested, and many aspects of medical practice have internationally recognised standards of best practice. The same cannot be said of measuring the learning outcomes of students. There is no rigid set of practice standards for teaching and learning. For this reason, many models of quality assurance in education rely primarily on qualitative assessments of school activities and performance. Nonetheless, policy makers in Brazil and indeed worldwide routinely use a range of quantitative indicators to assess the performance of the school systems for which they are responsible.

Brazil has high-quality data on education

Brazil has a well-established national system for collecting harmonised data about key aspects of the education system. The Anísio Teixeira National Institute for Educational Studies and Research (*Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira*, INEP), an agency under the responsibility of the federal Ministry of Education (MEC), collects data on student enrolment, teaching staff and other variables for individual schools in its “School Census” (*censo escolar*) (INEP, 2019^[17]). Data are published for municipal and state school networks for each municipality, while microdata exist for every public school.

Moreover, Brazil has a highly developed system for assessing the learning outcomes of school students through the Evaluation System for Basic Education (*Sistema de Avaliação da Educação Básica*, -SAEB), also co-ordinated by INEP. As part of SAEB, INEP designs and oversees the implementation of standardised national tests of students at three points in their educational pathway: in the last years of primary, lower secondary and upper secondary education⁴. The SAEB assessments (known as *Prova Brasil*) at each level assess students’ competence in Portuguese and mathematics. Alongside the results of the learning outcomes tests that students take, the SAEB assessments also generate contextual information about students and schools, gathered through student and school questionnaires administered at the same time as the tests themselves. The data for SAEB results are published for each municipality and microdata are used by INEP and external researchers to analyse educational outcomes.

Largely because of its role as a statistical and evaluation agency for education, INEP has also been tasked with developing indicators to monitor progress towards achievement of the goals in the country's National Education Plan (PNE) and with conducting regular progress monitoring exercises (INEP, 2018^[18]). The indicators used by INEP to monitor the PNE are the most complete set of national indicators of educational performance in Brazil.

TCs can use these data to build a methodology for shared risk-based audit selection

This wealth of statistical data on education in Brazil provides a strong basis to gain a broad overview of the characteristics and certain aspects of basic education performance in Brazil. Existing national data on the education system could be exploited to identify strengths and weakness in the performance of education policy in Brazil and to inform the planning, selection and implementation of audits in the field. At present, however, available data are not systematically used for this purpose in the country's external audit community.

As recommended in Chapter 1, TCs are in a position to leverage the audit capacity of each external audit body individually and collectively by sharing insights and analysing indicators to take a more strategic and systematic approach to audit selection. To do this, TCs can develop a common risk assessment methodology that is structured around the rich data sources in Brazil and a logic model that accounts for policy outcomes, as described below. This assessment can help TCs develop a harmonised language and map risks related to shared policy goals and national priorities in the field of education (i.e. the PNE), while accounting for each entity's unique context and mandate. As the process develops, TCs could also consider applying the methodology to other sectors and policy issues with similar challenges for auditing in a decentralised context, such as health and infrastructure.

Develop logic models to describe a policy's key factors

As discussed in the previous section, a pre-requisite for making better use of existing data to identify potential problems in policy implementation is to understand the significance of individual indicators within a broader conceptual understanding of the educational process. This broader understanding can be supported by a logic model for education that draws the relationships between inputs, processes, outputs and outcomes.

In policy design and evaluation, a logic model is a theory of how a particular policy intervention works to produce its outcomes. Logic models are used in policy planning and design to identify relevant interventions and assess their likely effectiveness, and in policy monitoring and evaluation as tools to help understand why policies achieve or fail to achieve their intended outcomes.

The three E's of economy, effectiveness and efficiency are central to performance audit. Use of a logic model can help the audit team focus the audit towards one or more of the three E's. The model helps to identify and set out the relationship between the needs to be addressed by the policy intervention and its objectives, inputs, processes, outputs, and outcomes, which include results and impacts (INTOSAI, 2016^[19]) (European Court of Auditors, 2017^[20]).

Box 2.4. Logic models

A tool for understanding policies

There are many different ways to structure logic models, but – as illustrated in Figure 2.3 – most seek to map and explain the linkages among the following key elements, all of which can in theory be linked to indicators:

- The inputs to the policy, programme or project. This generally includes financial, human and physical (buildings, equipment etc.) resources allocated for implementation of the policy in question, although some approaches to logic models include a wide range of contextual factors relating to the environment, in which policy is implemented under the heading of “inputs”.
- The processes or activities undertaken to deliver or implement the policy, programme or project.
- The outputs from the processes and activities undertaken (for example, length of highway built, volume of wastewater treated, number of patients receiving medical assistance, number of children graduating from school).
- The outcomes that the policy, programme or project seeks to achieve (for example, improved accessibility of particular regions; cleaner rivers; a healthier population; or a skilled and societally engaged population). The intended outcomes of a given policy, programme or project can be formulated as policy objectives. Policy evaluations generally seek to compare intended outcomes (objectives) with outcomes observed on the ground.

Figure 2.3. Generic logic model

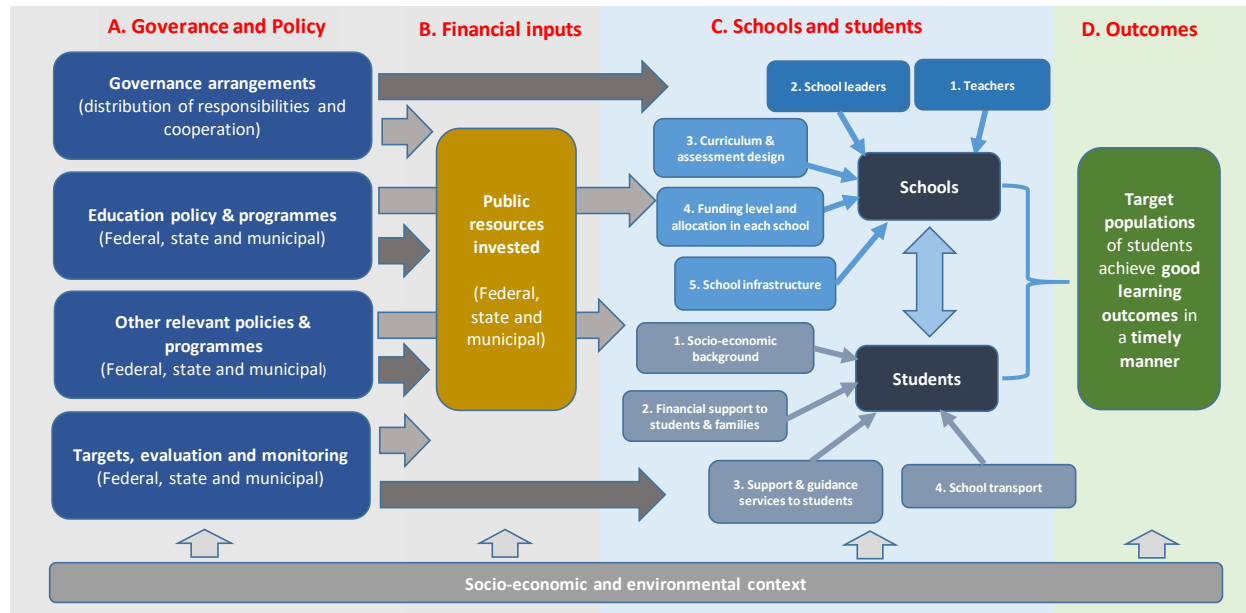


Logic models are a valuable tool for conceptualising and understanding the likely causal relationships between the way policies are designed and their outcomes, and they support results- or outcomes-based policymaking. However, they have their limitations. First, there is a risk of over-simplification, as logic models create a linear picture of cause and effect between an intervention and outcomes, when in fact a wide range of predictable and unpredictable exogenous factors may influence the outcomes achieved in practice. Moreover, lines of causality between action and outcome are often complex and impossible to predict or prove with absolute certainty. Equally, it is not always easy to incorporate contextual factors – such as the economic, social, cultural or geographical context in which a policy is implemented – into the logic model in a satisfactory manner. This is sometimes addressed by incorporating “context” as a specific element in models (ETS/OECD, 2019^[21]; Onderwijsinspectie, 2019^[22]). Finally, there may be a lack of conceptual clarity and consensus about how to classify variables in logic models. For example, it is not always clear how the beneficiaries of public services or targeted policy interventions (users, students, patients, etc.) should be treated in models that map the inputs, processes and outputs of policies. A patient can conceptually be seen as an “input” into the health system (while treated patients are outputs), but individuals are clearly a different kind of “input” from the financial and human resources used to run the health system, which are also inputs. These kinds of issues need to be carefully explained when applying logic models.

A logic model of education

The OECD developed a basic logic model for the educational activities that education policy seeks to steer. The objective is to identify the key elements (inputs, processes, outputs and outcomes) in the educational process and illustrate basic assumptions about the relationships among these elements, based on a broad review of educational theory and relevant research literature.

Figure 2.4. A logic model for the education sector



The logic model shown in Figure 2.4 can, in principle, be applied to any level of basic education. It takes an outcome-oriented approach and assumes that the ultimate objective of education is to equip the target population of students with a satisfactory level of knowledge, skills and attitudes (learning outcomes). Outputs are implicit in the outcomes in the logic model. The inputs and processes lead to students having received an education (output), through which they have acquired knowledge and skills (learning outcomes) that are relevant in everyday/working life (outcome). This approach is consistent with a student-centred approach to education policy and practice, as used in international learning assessments such as PISA (ETS/OECD, 2019^[21]) and in national educational assessment systems, including the system in Brazil (INEP, 2019^[23]). These assessment systems seek to measure students' learning outcomes in an objective manner. Although assessment of young children in pre-primary and primary education is theoretically possible, such assessments at a young age are rare in OECD countries. As a result, more indirect measures of "outcomes" need to be used to gauge the effectiveness of educational policies at this level.

For early childhood education and care and basic education, the "target population" of students encompasses all children in the relevant age cohorts in the jurisdiction in question. The intended outcome of education policy for these levels of education is thus for all children to acquire a satisfactory level of learning outcomes. Access to primary and lower secondary education has been universal in most OECD countries for many decades, although international assessments such as PISA show considerable variation in the learning outcomes students achieve. Governments in many OECD countries have also aimed to "universalise" early childhood education and care and upper secondary education, although participation rates continue to vary among OECD member and partner countries. Measurement of educational outcomes at different levels of education and in different jurisdictions must take into account the proportion of the targeted population that is actually reached by the education system (the "coverage" of the system). Information on education "output", such as enrolment and completion rates for target age cohorts, must be considered alongside any available measures of student learning outcomes.

The logic model assumes that the outcomes achieved by the education system (in terms of both coverage and learning) are achieved through the interaction between students and teachers in the school environment. Schools (and notably their teachers) and students lie at the heart of the educational process. A wide range of contextual factors influences the characteristics and behaviour of all three groups. These factors are shaped by a combination of inputs (e.g. student characteristics, teachers and their characteristics or school infrastructure) and school-level processes (e.g. curriculum and related teaching methods, support services and guidance).

The ability of students to acquire intended learning outcomes is affected in particular by the students' own background and abilities and by the capacity of their teachers to support their learning effectively. The home background of students has been widely shown to have a major influence on their initial cognitive and socio-emotional development (OECD, 2015^[24]) and their subsequent performance at school. The initial and ongoing training teachers receive, alongside their own aptitude for the job, plays a critical role in their ability to support the learning of students from different backgrounds (OECD, 2018^[25]).

The wider environment in which the teaching-learning process occurs further conditions teachers' ability to work effectively and students' ability to learn and develop. Within individual schools, this environment includes the quality and relevance of the educational content (curriculum) specified for students at different levels, the effectiveness of school leadership and the quality of the physical infrastructure and resources available for teaching and related activities. Ancillary services not directly related to the educational process, such as social services and support and school transport, also impact on students and their ability to learn.

Many of the inputs and processes surrounding schools and students identified in the logic model require financial resources. Teachers need salaries, school infrastructure and equipment need to be paid for, funds are required for teacher training, for financial support programmes for students and their families and for support and guidance services. When these financial resources come from public sources, they need to be mobilised and allocated through political decisions and policy design. As illustrated in Figure 2.4, governance and policy affect education not only by providing resources through direct financial transfers and public funding programmes, but also through regulation, guidelines and target-setting, all of which influence the behaviour of schools (and, to some extent, students). For TCs, key elements when analysing the policy and governance environment for education include:

1. *Governance arrangements*: the overall governance architecture, including the entities responsible for designing and implementing education policy and the distribution of responsibilities among them. This dimension encompasses the degree of centralised control or school-level autonomy within a system.
2. *Education policy and programmes*: the formulation and implementation of specific policies that guide and affect the way schools do their work, which may include policies on teacher training, school staffing, curriculum guidelines, admissions rules for students, and external tests and examinations, as well as policies that determine the level of resources schools (and teachers) receive. Some ancillary services, such as school transport, may fall under the category of education policy and programmes.
3. *Other relevant policies and programmes*: the formulation and implementation of policies and programmes not directly related to provision of education, but which directly support the goals of the education system.
4. *Targets, evaluation and monitoring*: the goal-setting and broader set of evaluation and monitoring exercises – including reviews by audit bodies – that inform the formulation and implementation of education and other relevant policies and programmes. It is helpful to single out these activities when analysing governance and policy as they typically occur at arm's length from detailed policy formulation and implementation – either at the strategic political level (as in goal setting) or through independent or semi-independent bodies (as in monitoring and evaluation).

Applying the logic model to education in Brazil

The logic model for education discussed above is designed to be sufficiently generic to allow application to any level of basic education in any jurisdiction. However, when the model is applied in Brazil to map the relationship between the policy and governance context, financial inputs, the characteristics of schools and students, and outcomes, the following considerations are particularly important:

1. Some of the elements mapped in the generic model will be more important in some countries than in others. For example, enrolment and completion rates in upper secondary education will be more of a concern in Brazil where access to this level of education is not yet universal than in countries where universal access and participation is taken for granted.
2. The role of social programmes in promoting school attendance, or organised school transport, will be more important in Brazil, where demonstrable low family income and limited transport options are frequent barriers to school attendance. For example, the *Bolsa Família* programme, which makes social welfare payments conditional on children attending school, has been instrumental in increasing enrolment rates in education – a precondition for achieving good learning outcomes. Similarly, providing school transport for students in rural and remote regions to increase school attendance has been a policy priority for federal government.
3. As discussed further below, the availability of relevant information and data relating to the different components in the logic model will affect the extent to which the model can be applied in practice. While the model describes which elements would be helpful for analysing education policy, some of these elements are difficult to measure - and even those that are measurable may not be measured at all. Particularly in Brazil, with significant social and regional variation in income levels and educational outcomes, information and data disaggregated by locality and social group are important for gaining a nuanced picture of education policy performance in different parts of the country and for different populations when applying the model.

As mentioned, Brazil has a well-developed national system of learning outcomes assessment in the school sector - the Evaluation System for Basic Education (SAEB) (INEP, 2019^[23]) – which means comparable data are available on key outcomes achieved by public schools and school networks across the country. This greatly facilitates the practical application of the logic model. In contrast, data on other factors, some of which may be relevant in Brazil, such as enrolment rates for specific age cohorts and access to school transport services, are not readily available.

Use the logic model to identify a limited set of available indicators

Well-designed indicators, underpinned by updated and reliable data, are a valuable means to obtain objective information about the implementation and effects of public policies, including progress made towards policy objectives. Good indicators can provide an easily comprehensible, evidence-based overview of key aspects of policy and the environment in which the policy operates; in making it possible to identify relevant patterns and trends, they provide a sound basis for informed decisions.

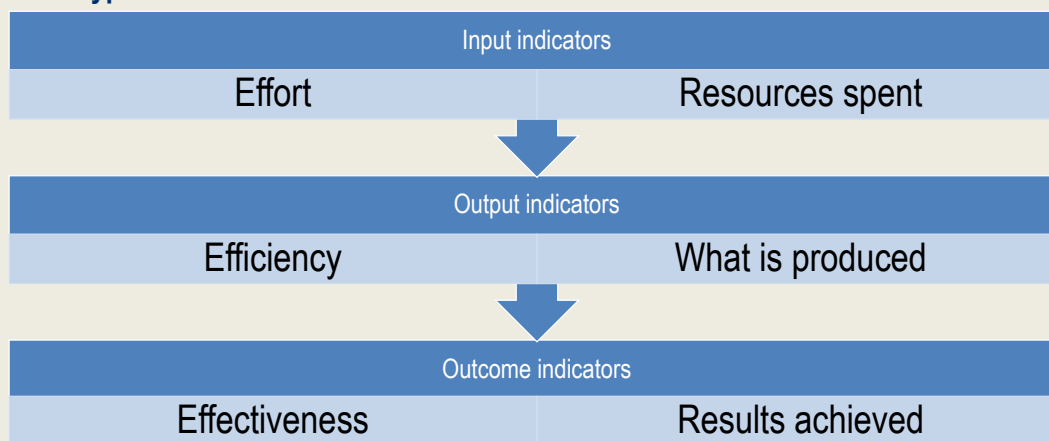
Box 2.5. Indicators

Indicators are usually quantitative measures, expressed numerically – for instance the number of X, the percentage of Y. Indicators can be based on quantitative or qualitative information. The number of schools for instance is a basic indicator using simple quantitative information.

More complex indicators can also be based on qualitative information. For these indicators the qualitative information is expressed as a categorical value – that is one of a number of fixed possible values, usually on a scale. For instance, the number or percentage of schools rated “excellent” by a school inspectorate is based on complex qualitative information, reduced to a scale of school ratings.

As illustrated in Figure 2.5, indicators can refer to input, output and outcome of a policy and thus mirror the basic logic model that is behind the policy design. This makes them extremely useful for policy monitoring and in auditing policy performance.

Figure 2.5. Types of indicators



Input indicators are used to measure the amount of resources allocated to a policy; as such they provide a measure of the effort devoted to a policy or the intensity with which it is pursued. They do not provide information on whether the resources are spent efficiently, or whether a policy is effective in achieving an objective.

Output indicators provide a quantitative measure of the results that are produced by a policy. Combined with input indicators, they can be used to judge how efficiently policies are executed, but they do not provide any information on whether the outputs of a policy are effective in achieving the ultimate objectives of the policy in question – the desired outcomes.

Outcome indicators are used to monitor the effectiveness of policies in achieving their objectives. The intervention logic for a given policy – summarised in a logic model - should map the expected relationship between the outputs produced directly by the policy (such as the number of kilometres of motorway built or the number of teachers trained) and the desired outcomes of the policy (such as improved connectivity or enhanced student learning outcomes). Outcomes cannot be changed directly: policies must produce outputs, which, in turn, influence the outcome in the desired way. An outcome indicator always has a normative component in the sense that (within a reasonable range) a movement in one direction is considered a positive development and in the other a negative development.

One element in the simple logic model from the previous section, the process, is predominantly qualitative, and therefore more complicated to include in a quantitative indicator system. For simplicity's sake, it would be best for process indicators to be either input or output for the specific process considered, depending on quantitative data available for specific processes.

Source: (Schumann, 2016^[26]).

Quantitative indicators allow quantifiable aspects of inputs, processes, outputs and outcomes to be judged in relation to established targets or benchmarks. In the field of education, for instance, the scores of students in learning outcome assessments (an outcome indicator) can be compared with expected levels or median scores. Similarly, staff-to-student ratios in one school, a school network or a municipality (an input indicator) can be compared with targets or median values.

Two of the most common objectives of indicator systems in public policy are benchmarking government performance (against established targets or comparators) and measuring the efficiency of spending (the results achieved for the resources invested). These two objectives are well suited to the objective of audit and audit selection. In all cases, the reliability and usefulness of indicator systems will hinge on the judicious selection and definition of the indicators themselves and on the quality of available data.

Key considerations for selecting indicators

The logic model serves as a tool for TCs to conceptualise the main variables that interact to influence the outcomes of a particular policy. This model then provides a basis on which TCs can identify the most relevant indicators for policy monitoring and audit selection in the Brazilian context. Once the conceptual model is in place, the next step is to identify which of the variables in the model can be measured reliably using indicators, taking into account evidence about the strengths and limitations of these indicators.

Annex 2.A of this chapter contains an analysis of the theoretical relevance of each variable in the logic model for the education sector presented above, as well as a short assessment of the main strengths and weaknesses of the indicators commonly used in OECD countries and beyond to capture and measure the variables in question. Based on a list of potential indicators, TCs should narrow down the set of usable indicators to avoid creating a process that becomes burdensome in attempting to measure too much.

When selecting indicators that can be used for policy monitoring and selection of audits, these key criteria can be considered (Schumann, 2016^[26]):

1. *Relevance*: do the available data (and indicators that define them) provide information that helps to measure the performance of policy systems and identify policy problems?
2. *Availability and timeliness*: are data available for relevant units of analysis (for example, in education, school networks, municipalities, states) for the whole country (or a large part of it)? How frequently are the data collected and updated? Does this frequency fit the purpose?
3. *Reliability*: are the available data from a reliable source that uses robust methods of data collection and management?

In addition to these, there are other factors that TCs can take into account when defining indicators. Some issues are common regardless of context and are typical of indicator-based assessments. For instance, in general, data on outputs are more likely to be available than data on outcomes. Monitoring basic compliance can be done with output indicators (e.g. “Was the number of schools built in accordance with the agreed plans?”), whereas monitoring performance or effectiveness requires outcome indicators, even if they are imperfect (e.g. “What proportion of students would not have graduated from high school if the new schools had not been built?”).

When it comes to audit selection of decentralised policies, TCs should also take into account indicators that represent the experience of both national and subnational levels. Depending on existing conditions, the same policies can cause different outcomes in different regions, and in these cases national indicators may be of limited value. The choice of the sub-national level should be determined by the degree of regional variation in the effects of a policy. If for instance there are big differences in outcomes between municipalities or even school networks, an indicator showing this level of data should be considered above a national indicator. Alternatively, if the local variation is small, a national indicator may suffice, but won't have much added value as an instrument to evaluate regional variation in outcome. Co-ordination gaps

that occur on sub-national levels – a weakness of multi-level governance common in Brazil and elsewhere – could be captured by outcome indicators that measure objectives at intermediate levels rather than at local or national levels.

TCs may also consider scoreboard indicators to monitor outcomes on sub-national levels, while exercising care not to generalise results. Scoreboard indicators are the highest level of outcome indicators, primarily used to give a general overview of an entire policy area. The smaller the sub-national unit to which an indicator refers – for instance an indicator on school level – the more strongly it is affected by random fluctuations. Every sub-national unit should be large enough to be representative of the entire country with respect to the outcome in question. (Schumann, 2016^[26])

Finally, when interpreting quantitative information in any policy field, two factors are vital for TCs to consider:

1. Many important things cannot be – or are not – measured. By definition, quantitative indicators cannot capture variables and factors that cannot be quantified – or for which quantitative data are not collected and computed because it would be too burdensome or methodologically complex to do so.
2. Examination of quantitative data alone will not explain *why* observed values are as they are. Although regression analysis and other statistical techniques can be used to identify relationships between the values of different variables and points to lines of causality, policy evaluation and performance audit always need to complement analysis of quantitative indicators with qualitative investigation of explanatory factors on the ground.

A two tiered approach of selecting indicators for audit-programming in Brazil

The logic model and considerations for indicator selection described above provide a road map for TCs to select education indicators for audit programming. There are essentially two tiers of indicators that the TCs can consider. The first are indicators that measure the desired outcomes for different levels of education. These indicators can be taken from the nationally adopted education policy (PNE); they include “coverage” (the proportion of the target population in education) and learning outcomes (the skills and competencies acquired).

Key first-tier indicators include enrolment rates by age cohorts and, for educational levels where these exist, data on students learning outcomes obtained from the country’s system of national standardised assessments (the aforementioned SAEB). Examining data for these indicators in conjunction with established benchmark values makes it possible to identify schools, school networks, municipalities or groups of municipalities in each state where outcomes fall below expected standards. Given the broad range of educational performance that exists in Brazil, the benchmarks used may need to be adapted to the circumstances of each state.

Second-tier indicators represent data on selected inputs and processes that are likely to affect the observed outcomes. TCs can use these indicators to identify patterns that may help to explain poor observed outcomes and potentially identify more specific issues that could warrant audit. If, for example, data on the qualification level of teachers in a particular state are lower than in other states in Brazil – and learning outcomes are also poorer than relevant benchmarks – there may be a *prima facie* case to examine that state’s system of initial teacher training or continuous education for teachers. If the level of teacher qualifications is low and combined with poor learning outcomes only in selected municipalities, it may be worthwhile to investigate why this is the case and whether it is linked to recruitment practices or staff conditions in the school networks concerned.

To ensure national coverage, comparability and reliability, TCs can select indicators from official national data sources, including the national education evaluation agency INEP and the national statistical office (IGBE). In collaboration with the TCs, the OECD has developed an initial indicator panel that includes the following:

- *For learning outcomes* – Disaggregated data from SAEB on learning outcomes in Portuguese and mathematics are available for students for years 5 and 9 and the final year of upper secondary education.
- *For coverage* – Data on the number and basic characteristics of children and students enrolled in education from the INEP School Census are combined with estimated populations by age cohort. It is necessary to use population estimates based on an established projection methodology as Brazil lacks reliable population registers and instead relies on decennial censuses, which rapidly become outdated.
- *For selected inputs and processes* – Basic data on municipal and state school networks; on numbers of classes; and on the number, age, qualification level and contractual state of teachers are taken from the INEP’s School Census. Some more qualitative data on the perceptions of school leaders, teachers and students are collected through the questionnaires that are completed at the same time as the SAEB tests, while limited data on financial inputs at school and school network level are obtained from SIOPE (*Sistema de Informações sobre Orçamentos Públicos em Educação*) and the Ministry of Education’s FNDE (*Fundo Nacional de Desenvolvimento da Educação*).

These indicators are not static. As policy objectives, challenges and data availability or quality change, so do the opportunities, limitations or rationale for using a specific set of indicators. Those indicators offer a starting point for TCs to ground future analysis and risk assessments in the logic model and criteria discussed above.

Develop “risk scenarios” to guide the risk assessment

The objective of using indicators in the process of audit selection is to identify, in a systematic way, where policies are not achieving objectives and may thus warrant investigation, particularly through performance auditing. The interpretation of indicators ideally should allow auditors to formulate a coherent explanatory narrative on which they can base the selection of audits. The ideal narrative would explain which events or circumstances, as flagged by the indicator model, could lead to poor performance on key outcome indicators. Such narratives can be captured in “risk scenarios,” as described in Box 2.6. Developing these scenarios involves concrete steps, described in the next section, that will ultimately help TCs prioritise and select audit subjects.

Box 2.6. Risk scenarios

What is a risk scenario?

Risk scenarios are hypothetical narratives of possible events, how they may materialise and lead to unwanted outcomes. These narratives are realistic descriptions of the unfolding of an event and are grounded in validated knowledge and past experience. The risk assessment itself looks at the actual risk of the event in terms of likelihood and impact. Risk scenarios are commonly used for assessing safety and security risks, as described below.

Example of using risk scenario analysis in Dutch national safety policy

The National Safety and Security Strategy in the Netherlands is based on the elaboration of scenarios that could be a threat to the country in the medium term (up to five years). Scenarios offer a way of communicating to form a joint picture of future uncertainties, factors that influence policy objectives, and decisions that have to be taken.

A risk scenario describes:

- *the incident*, i.e. (the nature and scale of) one or more inter-related events that have consequences for national safety and security and therefore have an impact at national level
- *the lead-up* to the incident, consisting of the (underlying) cause and any underlying insidious process, and the trigger that actually creates the incident or brings the insidious process to the surface
- *the context* of the events, indicating general circumstances and the degree of vulnerability and resistance of people, objects and society, to the extent relevant to the incident described
- *the consequences* of the incident, indicating the projected nature and scale with an overall description of the response and the control measures
- *the effects* of the incident on the continuity of vital infrastructure.

A multi-disciplinary working group develops each scenario. Representatives of the various (specialist) departments have a seat in the working group. The group's chair is usually from the specialist department most affected. Where necessary, use is made of expertise present in other ministries and from authorities, private individuals, knowledge centres and planning bureaus.

The next steps are then:

1. *Risk assessment* – Assessment of each scenario in terms of likelihood and impact is carried out by a balanced group of experts.
2. *Capability analysis* – The capability analysis takes place in a working group that includes all relevant experts and interests.

The specialist department with the prime responsibility for the scenario sets up the working group. Reporting of the capability analysis from various thematic in-depth studies forms the basis for the findings report.

Source: (Center for Security Studies, ETH Zurich, 2011^[27]); (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2009^[28]).

Well-designed risk scenarios provide a narrative that is built around cause and effect and grounded in experience and research evidence. They may be revised regularly, depending on the changing context and environment. Analytical techniques such as fault tree analysis or problem tree analysis, described below, can help in developing the scenarios. A problem tree starts from a detected problem whereas a

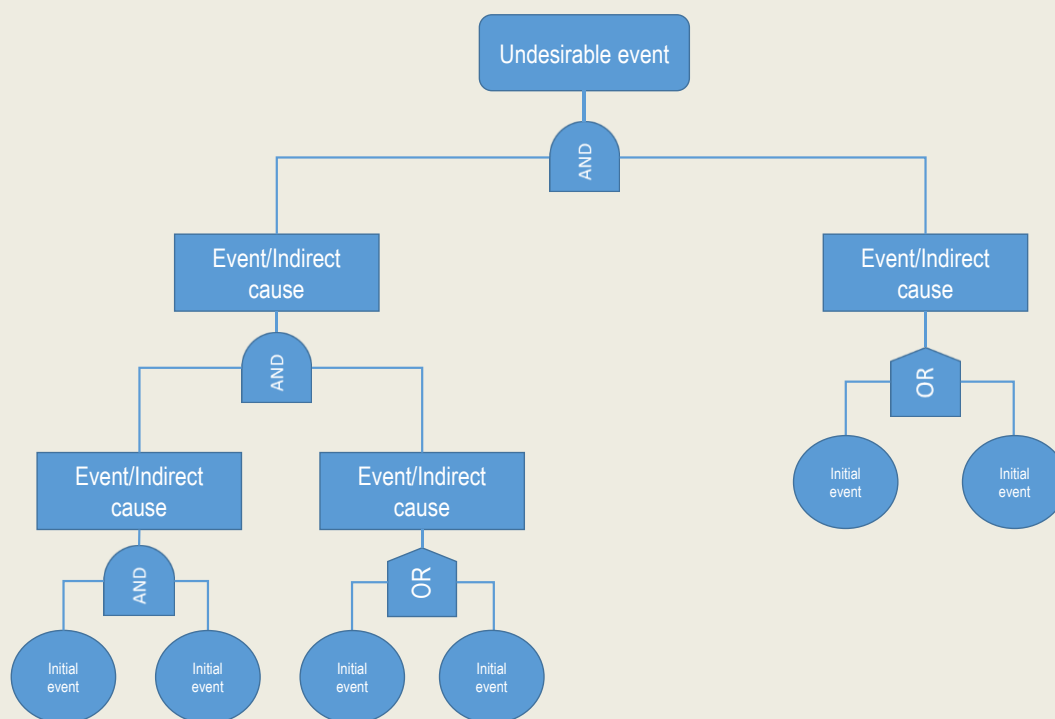
fault tree starts from a future undesired event. However, in the context of developing a risk scenario, this difference is mainly semantic. A problem tree can also serve as a risk tree when the central question is future oriented: what can go wrong?.

Box 2.7. Analytical techniques

Fault Tree Analysis

Fault Tree Analysis (FTA) is a well-established technique of deductive failure analysis. It focuses on one particular undesired event, the “fault”, and provides causes for this event before it occurs. The logical connections between the fault and its causes are graphically presented in a “fault tree”. The tree traces all branches of events that could contribute to the failure, down to the root causes. The method uses sets of Boolean symbols, labels and identifiers. It can also be used to evaluate the probability of the top event using statistical methods. FTA is common in many industries, including the aerospace, car, medical, and energy sectors.

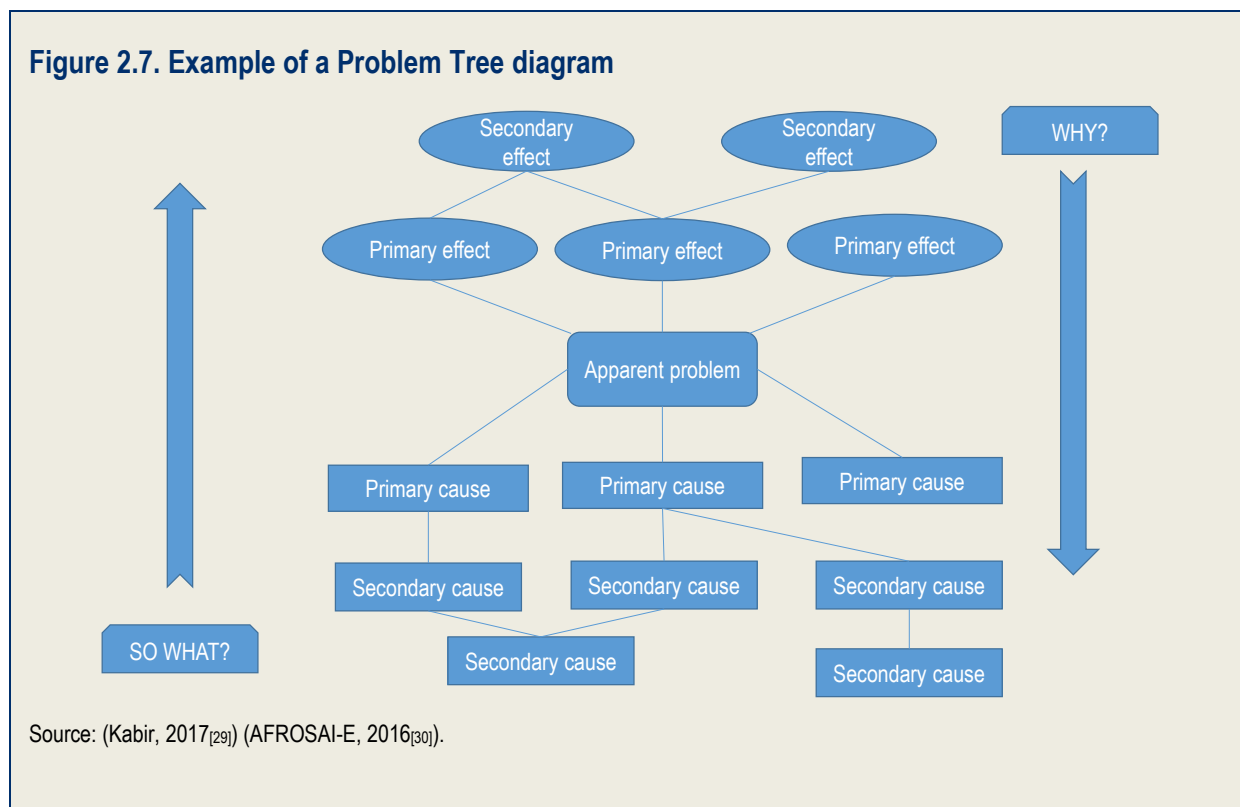
Figure 2.6. Example of a Fault Tree diagram



Problem Tree Analysis

A problem tree looks at the relationship between problems. It relates and links different problems to each other hierarchically according to how they influence each other. Any box in the tree can be identified as a problem. Root causes of that problem will then be found as one moves downward in the tree, asking ‘why’ and the consequences will be found as one moves upward asking “so what”. Problem tree analysis stays close to policy design in that it may also be used to map policy options that may solve a specific societal problem. The Performance Audit Manual of the sub-regional organisation for supreme audit institutions in English speaking countries in Africa (AFROSAI-E) recommends the problem tree technique as a way to direct focus for an audit.

Figure 2.7. Example of a Problem Tree diagram



TCs can build a risk scenario for each of the outcome indicators in the logic model. Essential steps in building these risk scenarios include:

1. Select a first-tier outcome indicator, as discussed above, from the logic model to start. A low score on this indicator will be the 'undesirable event' or 'future problem' that is at the basis of the scenario.
2. Identify tier-two output indicators in the logic model, making sure that the linkages between them illustrate a realistic explanation as to why and how these factors may contribute to the first-tier indicator and the undesirable event. The aforementioned techniques, i.e. the problem or fault tree analysis, can be useful at this stage.
3. Consider whether there are any elements in the logic model without indicators, which may contribute to the outcome problem.
4. Finally, add elements that are not in the model but seem relevant, based on experience or expert opinion. Steps 3 and 4 provide additional context and "local" knowledge to help uncover possible root causes.
5. Validate the scenario with stakeholders and other field experts. As a good practice, the building of risk scenarios could take place in working groups, involving risk analysts and experts.

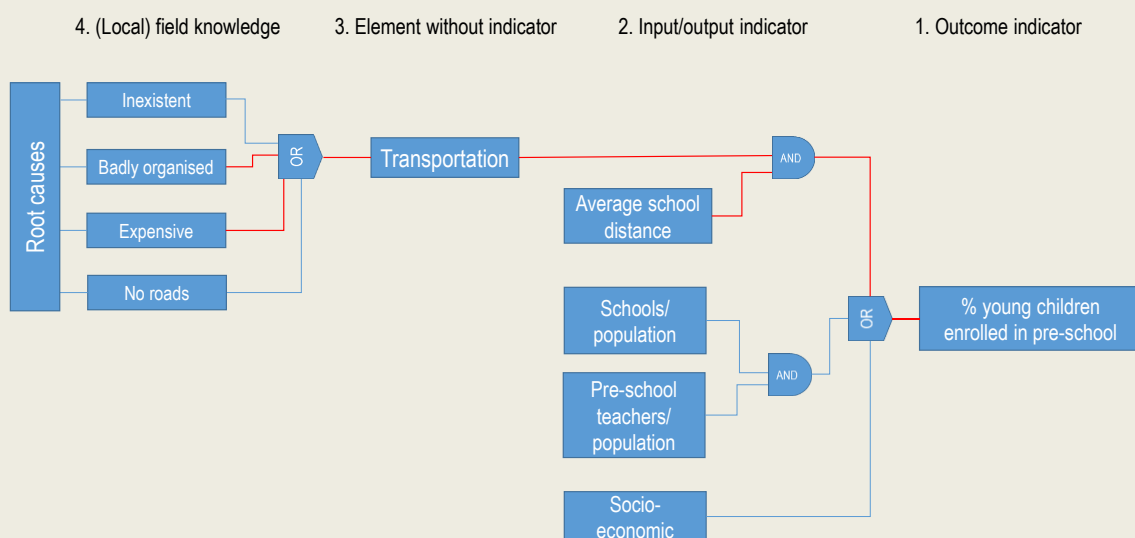
Risk scenarios can be simple, and do not need to capture all possible elements. TCs should focus on the most relevant elements for auditing. By developing only a limited set of scenarios, it becomes relatively easy to share them among external auditors, discuss outcomes and develop a shared risk map. Box 2.8 shows a fictitious example of developing risk scenarios in the education sector.

Box 2.8. Example of a risk scenario in education

A lack of school busses limits access to pre-school for young children

The undesirable event that triggers the scenario is low pre-school enrolment among young children. This is a typical example of an outcome that has a high regional variation in Brazil. A hypothetical cause may be that parents cannot or will not send their children to preschool because children need to travel a long way and parents have no access to school transportation. Following that line of reasoning, underlying hypothetical problems concerning school transportation may be that transportation may be non-existent in certain regions; it is badly organised; it is too expensive; or perhaps there are no roads in a rural area. One possible root cause may be corruption in the procurement of school buses. Other scenarios may be developed based on socio-economic disparity or elements related to scarcity of schools or pre-school teachers.

Figure 2.8. Fault tree analysis on the outcome indicator of pre-school enrolment



To build the risk scenarios, TCs could establish temporary working groups for each outcome indicator in the logic model, making sure there is a good mixture of experts and local knowledge. These working groups could be part of a sustainable *collaboration* mechanism among TCs (see Chapter 4 on collaboration). Since this is a new and innovative approach, TCs may work together in an iterative way, building a risk scenario and testing it in the audit selection phase (see next section).

In keeping with the purpose of the project, evaluating decentralised policies in a co-ordinated manner and highlighting multi-level governance issues, TCs could start this work with outcome indicators that show the highest regional variation. As stated in the section on indicators, in those cases it is probable that multi-level governance issues play a role. Also the added value of TCs working together is biggest.

TCs may follow the steps described in the previous section, but in addition should focus their scenario on explanations of regional variation. If they are not already included in the logic model, multi-level governance elements (see also chapter 3) could be considered as a part of step 4.

In addition to building a narrative, TCs could also consider to visualise the scenarios, so they can be easily communicated with other TCs and external stakeholders.

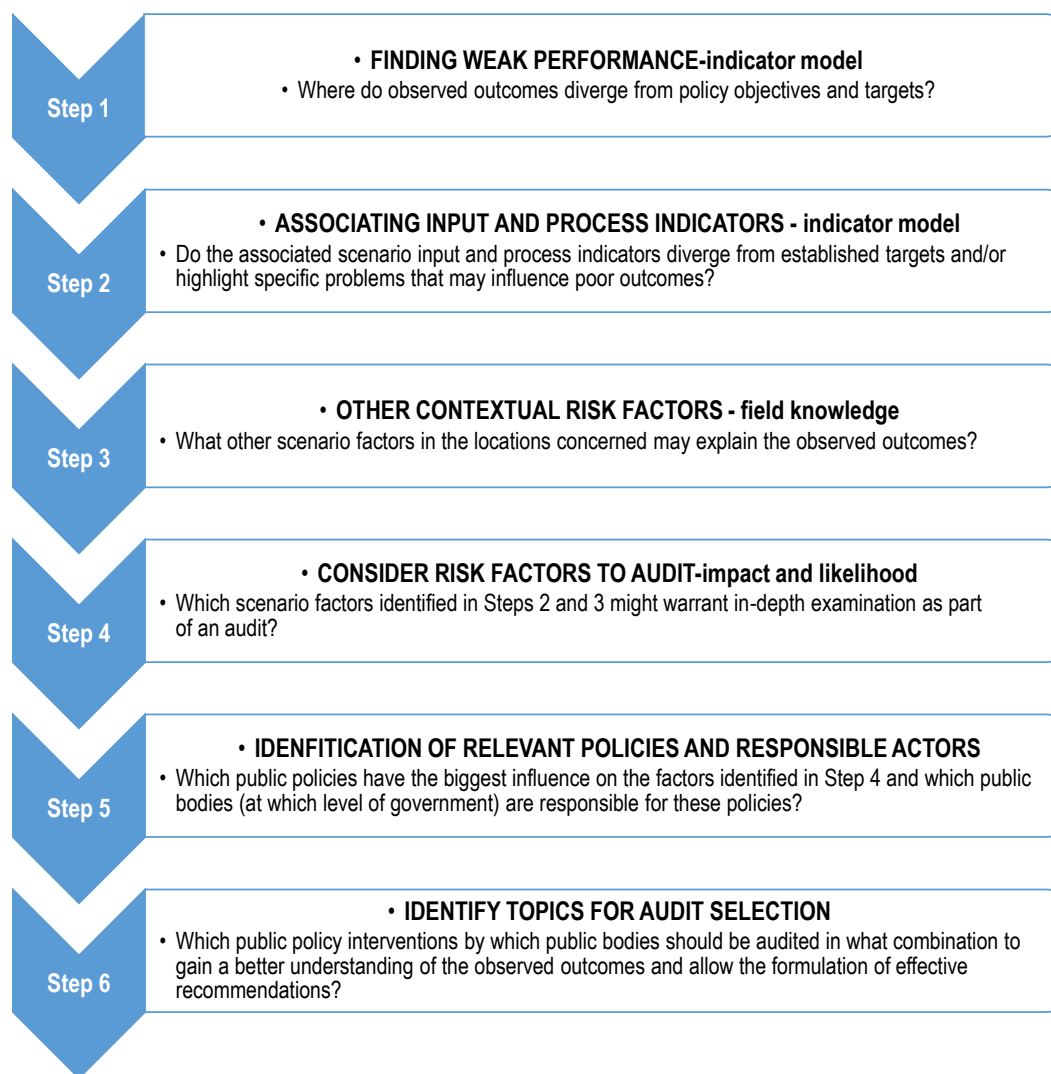
In order to facilitate learning and to make sure that the scenarios stay realistic and relevant, TCs should update the risk scenarios annually, in line with their audit planning cycles, based on developments in policy, context and knowledge gathered in recent audits.

The application of risk scenarios in audit selection

Risk scenarios help the organisation and prioritisation of the risk universe in an analytical way to steer risk identification and analysis. They serve as hypotheses that can be checked and analysed using indicator data and the auditors' field knowledge, thus identifying the scenarios with the highest probability and negative impact on policy outcomes. This is what happens in the risk analysis and audit selection phase.

Six consecutive analytical steps connect all previous recommendations in this chapter into one process for risk-based audit selection (Figure 2.9). Each step is guided by a key question. The assumption is that all outcome indicators of the logic model have underlying risk scenarios that hypothetically explain possible weak outcomes, but the steps may also be applied for a single outcome indicator.

Figure 2.9. Steps in risk based audit selection



Step 1: Finding weak performance

Auditors should first look at outcome indicators in the indicator model, ideally with the assistance of a technological tool (see Box 2.9). The goal of the first step is to select outcomes that are below a certain target or benchmark (e.g. established in a policy, or highlighted by the centre of government) and therefore raise concerns. The analysis might be at the national level, regional and/or municipal levels. In this way it also highlights any regional disparity of outcomes that may point to local or regional governance issues.

Key question to answer: Where do observed outcomes diverge from policy objectives and targets?

Expected output: reduction of the audit universe by weak policy performance, in relation to the level of analysis (e.g. municipalities, regions).

Step 2: Associating input and process indicators

In this step, auditors should search for the input, output and process indicators of the risk scenarios that are associated with the weak performance areas that have been identified in Step 1. The purpose is to select the scenarios that best explain the observed weak outcomes.

Key question to answer: Do the associated scenario's input and process indicators diverge from established targets or highlight specific problems that may influence poor outcomes?

Expected output: further reduction of the audit universe, by investigating the likelihood of possible risk scenarios that may contribute to explaining the observed weak performance.

Step 3: Looking at other contextual risk factors

The primary risk factors associated with weak performance should be included in the risk scenarios, but other factors, outside the scenarios might also help explain the observed outcomes. This step focuses on these other factors that might help explain the variations in outcomes observed in Step 1. Local knowledge is needed for this step, which requires auditors to consider for example indicators of socio-economic context, issues affected by complementary policies (e.g. social policies) and other local evidence, such as previous audit reports and findings, known issues, etc. Auditors' field knowledge is pivotal in this step, but if needed the team could also consult (local) experts.

Key question to answer: What other contextual risk factors in the locations concerned may contribute to the observed outcomes? Are there other risk factors outside the scenarios that would better explain the observed outcomes? May multi-level governance issues play a role?

Expected output: a limited number of enriched scenarios that explain the observed weak outcomes and take into account local variations in risk factors.

Step 4: Considering risks factors to audit

The previous steps lead to a problem analysis. At this stage, the factors in the scenarios that may contribute to the weak policy performance have been identified. However, these factors do not immediately provide audit topics. They must be brought down to risks (impact and likelihood), and connected to auditable entities.

This step looks at possible factors to audit. Some may be local, others general. Some may be influencing performance in multiple ways while others may have very limited impact. This step is the team's qualitative assessment of impact and likelihood of the scenarios and the constituting factors. The team members typically would have to reach agreement on the likely weight of all different factors in a scenario that are influencing poor observed outcomes.

Key question to answer: Which scenario factors identified in Steps 2 and 3 might need an in-depth examination as part of an audit?

Expected output: a sorted list or “heat map” of risk factors, connected to scenarios, which may be considered for audit.

Step 5: Identifying relevant policies and responsible actors

This step establishes the specific policies and actors connected to the risk factors under examination. In this step, it is important to consider possible multi-level governance aspects of the factors under consideration and to identify the responsibilities concerned. The possible complementary policies that have an impact on the risk factors under examination could also be considered.

Key questions to answer: Which public policies influence the factors identified in Step 4? Which public bodies (and at which levels of government) are responsible for these policies?

Expected output: a list of auditable objects in relation to the identified risk factors and an indication of the relevance of multi-level governance issues.

Step 6: Identifying topics for audit selection

This step combines auditable issues and entities into topics for audit selection; it looks for clusters or overlapping topics. Auditors or the responsible team might choose to apply visual techniques, such as mind mapping. To conclude the step, the team might search for validation from stakeholders, to ensure that these selected topics are indeed the most relevant.

Key questions to answer: With the purpose of gaining a better understanding of the weak outcomes and to allow the formulation of effective recommendations, which public policy interventions (co-ordinated by which public bodies) should be audited?

Expected output: a proposal for optional audit topics that can be taken into the audit selection phase.

This proposal will then be input for collaborative deliberation; specifying feasibility and the need for co-ordinated audits that may feed into the audit programming of each external audit entity (see Chapter 4 for further information about collaborative work among audit institutions).

Information technology can facilitate the risk assessment

The auditors doing the risk-based audit selection (described in the previous section) need to have access to the relevant indicator data and the risk scenarios that have been developed. In case of collaboration among TCs, it would be useful if auditors could document and share the results of their own risk assessment with other TCs to create a common knowledge base such as a shared risk map.

The main purpose of such an IT-tool is to facilitate data collection, exchanges of the data and execution of the analytical steps that are linked to the evaluation of indicators. In combining the risk scenarios, the tool may enable TCs to carry out risk assessments individually, as well as collectively.

Through a Geographic Information System (GIS) user interface for visualisation, auditors could apply the tool to identify key performance challenges and risk scenarios by policy area and by geographical area.

Moreover, it may prove a valuable instrument for harmonising assessment procedures and assuring the quality and comparability across the different collaborating TCs. The tool might also support the sharing of audit reports and facilitate the mapping of audit coverage and results, thus further contributing to collaboration (see Box 2.9 for examples of IT-supported risk assessment tools).

Box 2.9. IT-supported risk assessment tools

Austrian Court of Audit's Municipal Monitoring Tool

Since 1929, the Austrian Court of Audit (ACA) has been entitled to audit municipalities with more than 20 000 inhabitants. However, in recent years, municipalities in Austria have progressively been entrusted with more budgets to deliver services in such areas as social affairs, education and healthcare. This has resulted in an increase in the financial and economic significance of municipalities, and since 2011 the ACA has been entitled to audit those with more than 10 000 inhabitants. The extended audit responsibility has prompted the ACA to develop a tool to monitor the financial health of Austrian municipalities.

The tool operates mainly through the statistics software “R” and enables municipalities to be compared using different criteria, as well as observation of changes in municipalities and select the ones with the highest financial risk. The ACA obtains raw data from the country's statistical body. The data include detailed information on the closed accounts of the municipalities, statements of debts and liabilities, and socio-demographic data.

By ranking the municipalities according to their financial risk based on certain indicators, the tool allows the ACA to profile each of the 2 356 municipalities in Austria and to assess them with regard to their significance for the audit activities. The tool is used for audit planning and for the preparation of audits at the operational level (e.g. for the selection of peers). Upon request, the ACA also provides the relevant fact sheets to the respective municipalities.

The National Risk Atlas of Mexico

The National Centre for Disaster Prevention (CENAPRED) in Mexico created the National Risk Atlas (NRA), an innovative tool that integrates information on exposure and vulnerability from the three levels of government. The NRA provides a comprehensive national and local view of all disaster risks, natural or manmade and its GIS architecture provides excellent visualisation of the spatial relation between hazards and the population and assets at risk.

While it is mostly used to strengthen emergency response planning, the NRA is publicly available on its website <http://www.atlasmnacionalderiesgos.gob.mx/>, allowing growing risk awareness among the Mexican population.

Source: (EUROSAI, 2014^[31]) (EUROSAI, 2018^[32]) (OECD, 2013^[33]) (CENAPRED, n.d.^[34]).

Concerning the evaluation of indicators to facilitate audit selection, the basic functionality of the tool would be to allow Step 1 outcome analysis and subsequently, Step 2 analysis of contributing factors that constitute the risk scenarios. The tool could also have additional functionality, such as access to data on audit coverage, access to qualitative analytical information associated with the risk scenarios, a reporting and documenting unit, a risk map interface, etc.

This indicator-based and scenario-driven approach to audit selection requires strong leadership for implementation, not only because it is innovative but also because it requires multiple TCs to collaborate intensively. The governance, organisation and working methods that are needed are all part of the proposed collaboration mechanism that is the topic of Chapter 4. Within this mechanism, TCs should establish a permanent working group that prepares, supervises and executes the steps of the risk assessment, as described in the previous section. This group should work in an iterative way, developing the practical steps of the procedure and evaluating continuously.

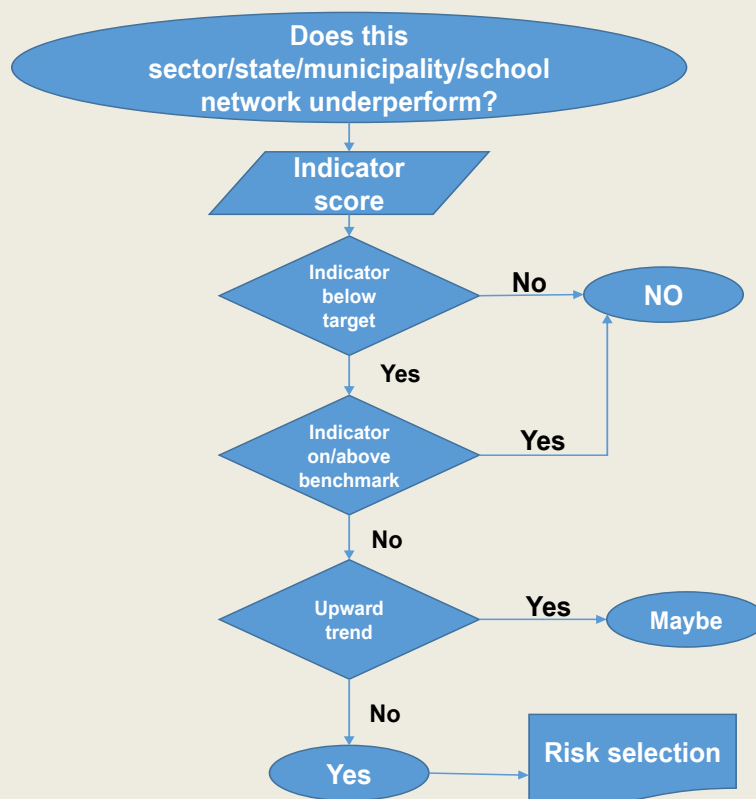
The working group should also consider developing an information technology solution that supports the analysis and sharing of information, as described above. Box 2.10 proposes the basic functionality of this tool. An IT tool may not provide TCs with automated results (i.e. the exact definition of the auditee, or the specific issues of a policy that need to be audited), but it can provide an initial basis for the identification of possible risks by topic, sector and geographical location.

Box 2.10. Required basic functionality of an IT tool to support audit selection in Brazil

Step 1 – Where do observed outcomes diverge from policy objectives and targets?

To answer this question the tool could provide an automated evaluation of all outcome indicators at the lowest level of analysis possible, using a simple decision tree; more decision trees would be needed to calculate the aggregated result. The GIS user interface then would allow the auditors to contemplate combinations of geographical level of analysis and policy objectives, establishing not only the main policy areas at risk, but also geographical variations. They can then focus their next analytical step not only on the policy outcomes that are most critical, but also on those municipalities that show the weakest indicator scores, narrowing down the audit universe.

Figure 2.10. Example of a simple decision tree in education



Step 2 – Do the associated scenario input and process indicators diverge from established targets or highlight specific problems that may lead to poor outcomes?

To answer this question the tool could provide an automated evaluation of all the indicators belonging to the risk scenarios that are associated with the selected policy objective, thus providing the auditors insight into the elements of the scenarios that have indicators and that are critical. In addition, the auditors can evaluate geographical variation, thus establishing if this is a local or more general problem.

The audit selection in itself is not part of the risk assessment, because audit selection requires different criteria, such as strategic, technical or resource related criteria. Audit selection in collaboration with other external audit bodies will be discussed in Chapter 4: Improving collaboration in the public sector audit system in Brazil.

Evidence based audit selection in Brazil: Key findings and recommendations

Taking into account regional variations in socio-economic conditions and policy outcomes is extremely important in selecting audits in decentralised policy areas in Brazil. Data and evidence at the local level are widely available in Brazil and can provide insights into differences among regions.

TCs are in an excellent position to systematically collect and analyse evidence that will shed a light on disparities in policy performance, help to identify risks and ultimately lead to strategic audit selection.

TCs are already evolving practices on risk based audit selection, but they could make them more systematic, sharing information and knowledge that will allow them to build a shared risk map. They could develop a common method, beginning with the policy field of education.

Based on an outcome-oriented logic model for the policy area of education, TCs could describe the relations between actual input, processes and output/outcomes of education policy in Brazil. TCs should then select a limited set of available indicators for the elements in the logic model for which good data are available.

For each selected outcome indicator TCs could develop risk scenarios that connect the outcome indicator with indicators on input and processes, as well as local context, thus explaining what could lead to poor performance on this output indicator.

In six analytical steps, using the indicator data, TCs could test the probability and impact of the risk scenarios, leading to a proposal for optional audit topics.

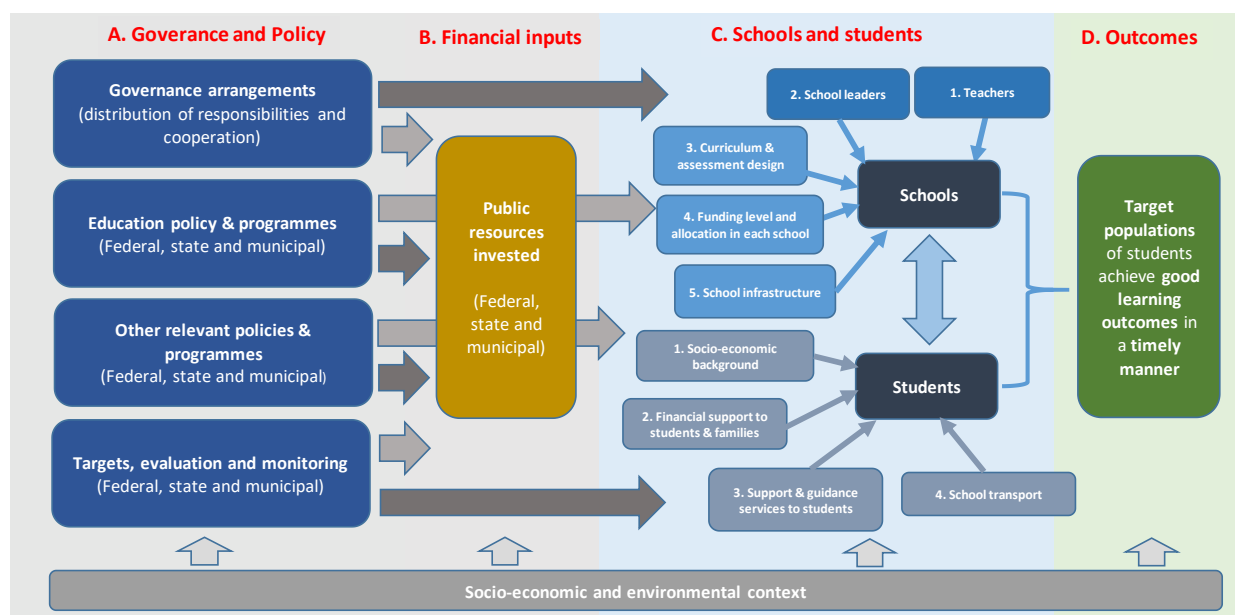
TCs could build an IT tool to facilitate the analysis and share results. A permanent working group could prepare, supervise and execute the steps of the risk assessment at the same time further developing the practical steps of the approach. Once the approach is an established practice, TCs could extend the method to other decentralised policy areas.

Annex 2.A. Indicators in the model

The simple conceptual model of the educational process used in the Integrar project, presented in Annex Figure 2.A.1, distinguishes between:

- The governance and policy context in which education takes place;
- The overall financial inputs into the educational process;
- The interaction between school and student-level factors in the learning process (schools and students) and
- The intended outcomes of the educational process: that the target population of students (e.g. a specific age cohort) acquires good learning outcomes in a timely manner.

Annex Figure 2.A.1. Conceptual model of the educational process



Following an iterative process of discussions with the audit community and educational experts in Brazil, the project is focusing on assembling a limited set of indicators that will allow auditors to monitor key performance variables in the basic education system in Brazil and to identify issues where performance audit may be warranted. This note provides an overview of the main types of indicator that can be used to measure the key variables related to the educational process and educational outcomes included (parts C. and D. of the conceptual model). The tables in the follow pages present, first, key outcome variables and indicators and, second, variables and indicators related to the educational process that leads these outcomes.

The tables provide a brief explanation of the theoretical relevance of each variable, as well as a short assessment of the main strengths and weaknesses of the indicators commonly used in the OECD and beyond to capture and measure the variables in question.

Annex Table 2.A.1. Indicators at level 1

All indicators included here are *theoretically* relevant to all levels of basic education and schools of all governance types

Result variables	Why is this variable important from a theoretical perspective?	Commonly used indicators for measuring the variable	Strengths of indicator	Weaknesses of indicator
1. Coverage	The concept of coverage refers to the proportion of the target population for a policy intervention that is actually reached by that intervention. For universal schools systems, the intended coverage rate is 100%, for crèche and upper secondary education, lower coverage targets may exist. Coverage is not an outcome in itself, but rather a pre-requisite for achieving outcomes (children must be in school to learn) and information on coverage rates is important for interpreting outcomes information to determine what proportion of the target population is affected by observed outcomes.	Proportion of the population of “crèche age” (e.g. 0-3) or “school age” (e.g. 4-17) that in practice attends crèche or school.	<ul style="list-style-type: none"> • Coverage rates based on specific age cohorts or other target population groups are a primary indicator for measuring the “reach” of policy. • Coverage rates based on age cohorts are well-suited for measuring participation in <i>crèche</i> and pre-school, where the impact of grade repetition is not yet felt. 	<ul style="list-style-type: none"> • Coverage rates based on a specific age cohort can be less informative for older age cohorts in school systems with grade repetition as basic coverage indicators show if individuals are in education, not if they are in the “correct” level of education for their age (see progression).
2. Learning outcomes	Standardised testing is widely used in school systems to measure the extent to which students have acquired specific knowledge and skills that the curriculum is designed to impart. Enhancing the knowledge and skills of students is a core objective of education. Curricula that establish expected learning outcomes for different educational stages provide a reference framework to guide learning and teaching. Standardised learning outcomes tests typically seek to measure the extent to which (a sample) of these expected learning outcomes have been achieved. Although it is theoretically possible to create learning outcomes tests for very young children (in crèche and pre-school), such tests are not used at scale, in particular because of ethical concerns about testing young children.	Average or median student score in standardised learning outcome test on transparent scoring scale	<ul style="list-style-type: none"> • Provides a basic indication of the learning outcomes acquired by an “average student” on an understandable scale (e.g. 5/10). 	<ul style="list-style-type: none"> • On its own, provides no information about the level or levels that students are expected to achieve in the test (is a good score 60%, 70% or 100%). • Simple average or median scores provide no information on the distribution of performance.
		Proportion of students achieving benchmark X, Y or Z (defined in assessment framework) in standardised learning outcome test	<ul style="list-style-type: none"> • Provides an indication of the proportion of students reaching expected learning benchmarks. • When benchmarks are combined to create performance “bands”, creates transparent indicators of distribution of performance. 	<ul style="list-style-type: none"> • Information will always be constrained by the quality of the test and scoring practice and even the best tests cannot provide a comprehensive picture of student learning outcomes.
3. Progression and completion	In education systems, “progression” refers to the rate at which students move through the system (from one year or step to the next) and “completion” to the act of completing a defined educational level. A distinction can be made between “completion” and “successful completion” of a given educational level. Students can complete school simply by attending class and achieving the	Proportion of enrolled students in a school year/grade for which they are theoretically “too old” – reported by schools (e.g.	<ul style="list-style-type: none"> • Provides a useful – and simple - reference indicator to gain a picture of the overall scale of grade repetition. Indicator. 	<ul style="list-style-type: none"> • On their own, such indicators do not provide any information on possible causes of rates of grade repetition in a specific school or locality (such as proportion of

<p>most basic completion requirements. Successful completion, in contrast, implies meeting a minimum learning outcomes standard to be considered “successful” (a grade or grade point average, for example), whether school-based assessments or, at later stages of the educational pathway, in formal, often external, examinations.</p> <p>In some OECD education systems, progression and basic completion are automatic or nearly automatic for all or the vast majority students. In other systems, grade repetition means students repeat years and thus progress more slowly.</p> <p>Grade repetition usually has a financial cost, as individuals either a) remain in school for longer, costing more for the education system and to society through delayed entry to the labour market or b) leave school without have completed the full curriculum, limiting their future study and employment options.</p> <p>Moreover, evidence from different countries and from the OECD PISA project suggest that that grade repetition has limited or no impact on repeaters’ academic performance and may adversely affect their attitude towards education. Analysis in systems where the use of grade repetition was introduced or increased (allowing comparison) showed no positive impact of the reform on academic standards.</p> <p>In systems where it is used, grade repetition and tends to be disproportionately used for students from lower socio-economic backgrounds: students from low socio-economic backgrounds in these countries in PISA are more likely to report having repeated a grade than their peers from wealthier backgrounds who demonstrate the same PISA scores.</p> <p>The balance of evidence form educational research suggests grade repetition should be used sparingly, if at all.</p>	<p>Brazil’s “age-year distortion” indicator, which measures proportion at least 2 years “behind”)</p>		<p>students with special learning needs).</p>
	<p>Proportion of enrolled students who go on to complete and successfully complete programmes – reported by schools</p>	<ul style="list-style-type: none"> • Provides an indication of the completion and successful completion rates of enrolled students in specific schools or systems 	<ul style="list-style-type: none"> • Relies on individualised (“true cohort”) tracking of students through the schools or systems – which is absent in many systems Unless a comprehensive, system-wide data system exists, those who move school are often lost or miscounted.
	<p>Proportion of the population at age X having <i>completed</i> [or not completed] school level X (based on household surveys, reported by individuals)</p>	<ul style="list-style-type: none"> • Provides a simple indication of the scale of school drop-out – the proportion of individuals who leave the system before completing the expected educational pathway. 	<ul style="list-style-type: none"> • Provides no information on the qualifications gained or the likely learning outcomes achieved by the individuals who “completed” school.
	<p>Proportion of the population at age X having <i>successfully completed</i> school level X (based on household surveys, reported by individuals)</p>	<ul style="list-style-type: none"> • Provides an indicator of the academic success rate – the proportion of individuals who achieve a recognised educational standard – usually measured by school-based or external assessments (such as ENEM in Brazil). 	<ul style="list-style-type: none"> • Interpretation of the indicator will depend on the how “successful” is defined and the validity of the relevant benchmark (for example, are external examinations a reliable measure of learning intended outcomes?).

Annex Table 2.A.2. Indicators at level 2

All indicators included here are *theoretically* relevant to all levels of basic education and schools of all governance types

Input and process variables	Why is this variable important from a theoretical perspective?	Commonly used indicators for measuring the variable	Strengths of indicator	Weaknesses of indicator	
Students	Socio-economic background of students	<p>Research from many OECD countries has tended to show a negative correlation between students' socio-economic background and the learning outcomes they achieve in school, with those from poorer backgrounds achieving worse results. This pattern is linked to a complex set of factors, including the cultural capital students have access to at home, which tends to be closely correlated with the socio-economic status of parents. The cross-country analysis undertaken in successive rounds of PISA has demonstrated that the impact of socio-economic status as a determiner of learning outcomes varies between school systems, suggesting that the link between socio-economic status and educational achievement can be broken. The way education is organised and delivered affects schools' ability to raise the learning outcomes of those from more disadvantaged backgrounds - in a sense "compensating" for challenges in students' home background.</p> <p>Evidence from OECD countries suggests that high quality early childhood education and care, avoiding strong social segregation in the school system and targeting resources on schools and pupils with the highest levels of socio-economic disadvantage are among the most effective methods for limiting the impact of socio-economic background on learning outcomes.</p> <p>From the perspective of policymaking and policy evaluation, it is important to understanding the socio-economic profile of the student population served by specific schools or school networks in order to gain a picture of the challenges they face and the influence of these challenges on observed outcomes (coverage, learning outcomes, progression and completion).</p>	<p>Proportion of students enrolled in school X or school network X from disadvantaged backgrounds (<i>where precise definition of disadvantage varies but might include factors such as family income, parental occupation, ethnicity or home neighbourhood</i>)</p> <p>Socio-economic status of locality, catchment area or municipality where school X is located (<i>based on population characteristics or location</i>)</p>	<ul style="list-style-type: none"> • Captures socio-economic profile of students actually enrolled in individuals schools and school networks. • There is usually a correlation between the socio-economic profile of localities and profile of student intake in local schools. • Comparatively simple indicator to use, with limited number of data points (just localities). 	<ul style="list-style-type: none"> • The criteria for defining disadvantage (income thresholds, use of ethnicity etc.) can be open to challenge. • Disaggregating student population adds to complexity of data set. • Does not directly measure the socio-economic status of the student body actually enrolled. • Does not capture variation in socio-economic profile of student body between schools in same locality.
	Financial support to students and families	<p>Internationally, the impact of financial support to students and their families on educational progression and attainment has been studied most closely in the fields of a) higher education and b) early childhood education and care. Dedicated financial support programmes for students of school age and their families (as opposed to general family benefits) are comparatively infrequent in OECD countries. As a result there appear to be comparatively few studies focused specifically on the link between financial support and school outcomes.</p>	<p>Proportion of students in school X / school network X in receipt of public financial support</p>	<ul style="list-style-type: none"> • Indicators based on the proportion of benefit recipients provide an alternative or complementary indicator of socio-economic disadvantage. 	<ul style="list-style-type: none"> • Such indicators may not bring additional explanatory information in other socio-economic indicators are used.

	<p>In Brazil, alongside combatting poverty, an explicit objective of the <i>Bolsa Familia</i> programme has been to improve school attendance. Research suggests the programme has had a strong impact on school attendance, but that there is no evidence of a direct impact on learning outcomes.</p> <p>Knowing whether or not financially needy students receive financial support provides another contextual element to inform analysis of observed educational outcomes.</p>	Proportion of students nominally entitled to financial support who effectively receive this support	<ul style="list-style-type: none"> • Provides an indication of the effective reach of a public policy designed to support educational outcomes. 	<ul style="list-style-type: none"> • Such indicators are more relevant to evaluation of the financial support policy itself, rather than diagnosing issues in the wider educational system
Non-financial support and guidance received by students	<p>International evidence, from developed and developing countries, has highlighted the value of appropriate student guidance, counselling and mentoring in supporting students to progress successfully through school. This is particularly the case for students from more disadvantaged backgrounds (see above), who may lack relevant input from parents and guardians received by other students.</p> <p>Knowledge about the level of guidance, counselling and mentoring in place in schools / school networks, particularly that targeted at disadvantaged students, can help gain a picture of the learning environment in which students are developing, with higher “levels” of guidance, counselling and mentoring (notwithstanding measurement limitations) assumed to have a positive influence on educational outcomes.</p> <p>Often informal nature of guidance, counselling and mentoring makes these activities hard to measure.</p>	School-reported information on the proportion of students assigned mentors or having received personalised guidance, counselling or mentoring	<ul style="list-style-type: none"> • If reliable information systems are in place, school-reported information may be more comprehensive. 	<ul style="list-style-type: none"> • Data rarely collected • Even if collected, data unlikely to go beyond formal structures in place, without providing indication of quality
		Information reported by students on whether or not they have received personalised guidance, counselling or mentoring	<ul style="list-style-type: none"> • Direct feedback from beneficiaries of actions • Qualitative information can be obtained. 	<ul style="list-style-type: none"> • Self-reported information (e.g. in background questionnaire to tests) may lack accuracy.
School transport	<p>The physical accessibility of schools naturally plays a crucial role in the coverage achieved by educational systems and, ultimately, the learning outcomes achieved by the population. Although distance learning is used in some countries for children in the remotest regions, as a general rule, students need to get to school. In many countries, a large proportion of students can walk or cycle to school, alone or accompanied, or take mainstream public transport. Where such options are not available, and assuming it is neither possible nor desirable for students to be driven to school individually by parents, other, dedicated collective transport options are required. This may involve school buses or other forms of organised transport, depending on the region.</p> <p>The absence of such dedicated collective transport can act as a major barrier to students’ enrolling in school and thus the performance of the school system.</p>	Proportion of students who need and are nominally entitled to school transport who effectively receive this support	<ul style="list-style-type: none"> • Provides an indication of the effective reach of a public policy designed to support educational outcomes. 	<ul style="list-style-type: none"> • Such indicators might be considered more relevant to evaluation of the school transport policy itself, rather than diagnosing issues in the wider educational system.

Staff (Teachers and school leaders)	The quality of teachers / teaching	<p>Research into the factors affecting school-based student learning generally emphasise the crucial role of teachers and the classroom-level activities they control. Teachers are at the “frontline” in the educational process, but operate within a framework influenced by the school (management, infrastructure, etc.) and wider educational policies (curriculum, remuneration levels, etc.).</p> <p>The professional characteristics of teachers (such as their initial training, motivation and continuing professional development) influence their pedagogical practices, which are, in turn, viewed in educational science as predictors of student achievement and motivation (e.g. cognitive activation, clarity of instruction, and classroom management).</p> <p>The impact of initial training and continuing professional development on teachers’ knowledge and capacity to teach students (from different backgrounds) effectively will be influenced by the quality of the training, as well as the individual characteristics of the teachers concerned (with high quality training and talented, motivated teachers needed for optimal results). The ability of teachers to translate their teaching skills and knowledge into effective teaching will also be influenced by the school environment (including teacher-student ratios).</p>	<p>Proportion of teachers with a defined initial qualification (e.g. tertiary-level education degree, degree in subject they teach for secondary school teachers)</p>	<ul style="list-style-type: none"> • Provides a basic indicator of educational preparation of teachers. 	<ul style="list-style-type: none"> • It may be difficult to define which qualifications are “adequate”. • Quality of degrees held by teachers varies, but is hard to measure.
		<p>Proportion of teachers participating in continuing professional development – CPD (reported by schools or through teacher surveys)</p>	<ul style="list-style-type: none"> • Provides an indication of commitment to training. 	<ul style="list-style-type: none"> • Typically very difficult to assess the quality and relevance of the CPD followed. 	
		<p>Teacher-student ratios</p>	<ul style="list-style-type: none"> • Valuable indicator to measure the capacity of teachers to dedicate time to individual students (and deploy their teaching skills). 	<ul style="list-style-type: none"> • It is challenging to define maximum “acceptable” class sizes, as evidence is mixed. • The use of “teaching assistants” can complicate calculation of ratios. 	
School leaders	<p>A range of research internationally has demonstrated the role of effective school leadership (having good head teachers) in supporting student achievement, particularly in schools serving disadvantaged students. A major impact analysis in the UK, for example, demonstrated positive impacts on student achievement arising from the educational values and strategies adopted by school leaders, in combination with national policy incentives. While this study and others illustrate the importance of good leadership in schools and recommend specific training and mentoring, it is challenging to promote “good leadership” through policy initiatives.</p> <p>More generally, the work done in this field has relied on highly specific surveys of school leaders and labour-intensive qualitative research. It is almost certainly not possible to gain a picture of the school leadership in place in a particular school through a simple indicator.</p>	<p>Indicators relating to school leaders’ values and strategies gathered through qualitative surveys</p>	<ul style="list-style-type: none"> • Such indicators can provide some indication of the likely effectiveness of school heads. 	<ul style="list-style-type: none"> • The features that make a “good” school leader are contestable and hard to measure through surveys. • Data gathering is necessarily labour intensive. • Results are generally based on self-reporting in surveys, with the usual limitations of this. 	

School environment	Curriculum and assessment design	<p>Curricula or curriculum guidelines specify – in varying levels of detail - the intended learning outcomes that students are expected to acquire at different stages of their educational pathway and, to some extent at least, the learning methods that will be used to allow students to acquire these learning outcomes. Curricula may be developed entirely by individual teachers, by schools or, in the case of national curricula, central authorities, although in practice they are usually the product of all three levels (teacher, school, external authorities).</p> <p>Analysis of curricula may examine the relevance of the intended curriculum and/or compare the intended curriculum with that are actually delivered in classrooms.</p> <p>Analysis of curricula may also consider the relevance of the learning techniques used. School inspection bodies often use qualitative indicators to guide their assessment of the quality of the design and implementation of curricula in individual schools.</p> <p>It is difficult to assessing curricula and teaching through any methods other than qualitative on-site observation, using expert judgement. There have been attempts to use surveys to collect information about aspects of curriculum development and teaching practice, such as OECD’s TALIS survey of teachers.</p>	Information on curriculum design and implementation and teaching practice gathered through qualitative surveys	<ul style="list-style-type: none"> • Such indicators can provide information on teaching approaches and teachers’ opinions about curriculum design and teaching. 	<ul style="list-style-type: none"> • Indicators of curriculum design and teaching are most effective when used in conjunction with labour-intensive on-site reviews. • The results of teacher surveys relating to curriculum and teaching may suffer from self-reporting bias and a lack of shared understanding of relevant concepts.
	Level and allocation of resources in schools	<p>Adequate resources are crucial for providing students with high-quality opportunities to learn, but resources translate into better learning outcomes only if they are used efficiently. Research evidence usually shows a weak relationship between the total quantity of educational resources and student performance, as the quality of resources and how these resources are stronger predictors of variation in performance between schools or systems, particularly in industrialised countries, where basic resources tend to be guaranteed.</p> <p>Evidence from PISA suggests that systems that pay teachers more (i.e. higher teachers’ salaries relative to national income) tend to achieve better learning outcomes. Moreover, high-performing systems tend to allocate resources more equitably across socio-economically advantaged and disadvantaged schools.</p> <p>Analysis in the United States suggests that spending resources in ways that reduce class sizes for young children and those with greater academic needs and that improve teacher quality have strong payoffs for educational outcomes. However, the same research argues that increasing school funding is most effective when it is part of comprehensive efforts to improve teaching and learning.</p>	Average public spending [per level of schooling] per enrolled full-time equivalent student for all services or disaggregated by staff, operating costs and capital investment [average figure for school system]	Provides a readily accessible indicator of the level of investment in education.	<ul style="list-style-type: none"> • Average figure conceals variation between schools. • Disaggregated data on staff costs, operating costs and capital spending is not always collected consistently.
			Public spending per enrolled full-time equivalent student for all services or disaggregated by staff, operating costs and capital investment [data for individual schools]	Provides a more detailed picture of the distribution of financial resources in the school system.	<ul style="list-style-type: none"> • Working with school-level data increases the complexity of the data set. • Data need to be interpreted in conjunction with other contextual factors that might justify variation in investment between schools. • Disaggregated data on staff costs, operating costs and capital spending is not always collected consistently.

School infrastructure	<p>Research from different countries demonstrates a link between the quality of the infrastructure in which education takes places (school buildings, IT infrastructure, and recreational space) and the learning outcomes achieved by students. Although it is widely accepted that the quality of teaching and teachers is fundamental for learning, evidence from developed and developing countries tends to confirm the hypothesis that good quality educational facilities are in important factor in providing effective education. Whereas research in developing countries has focused on the impact of providing good quality basic educational infrastructure (adequate classroom space, sanitary facilities etc.), work in the United States and other OECD countries has examined a wide range of factors related to the physical learning environment, including detailed aspects of classroom design.</p> <p>Research into the impact of technology on educational outcomes suggests that information and communications technology (ICT) can have a positive impact on students' learning outcomes, but only if well used. Simply supplying ICT equipment to schools, without a clear strategy for their use and staff capacity building does not enhance learning and may even be counter-productive.</p>	Standardised rating of quality of school infrastructure	<ul style="list-style-type: none"> • Can provide comparable, reliable information on the level of infrastructure in specific schools or school networks. 	<ul style="list-style-type: none"> • Relies on existence of assessment framework. • Information collection relies on time-consuming site inspections or detailed self-reporting by schools.
		Measures of classroom space or other physical facilities per full-time student	<ul style="list-style-type: none"> • Can provide a quantifiable indicator of basic facilities. 	<ul style="list-style-type: none"> • Such quantitative indicators are only suited for the most basic infrastructure and are rarely able to capture the quality of the facilities available.
		Quantitative indicators of ICT facilities (e.g. broadband connection or number of computers for each 10 students)	<ul style="list-style-type: none"> • Can provide a quantifiable indicator of basic facilities. 	<ul style="list-style-type: none"> • Such indicators cannot capture whether and how ICT facilities are used, which is what counts for impact on learning.

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Notes

¹ Data from 2016 show that, of the 33 member and partner countries for which data are available, public spending as a proportion of GDP on primary and secondary education is the same or higher in only Norway, Belgium and Iceland (OECD, 2019_[12]).

² “Basic education” (*educação básica*) in Brazil refers to all forms of school-level education, from pre-school to the end of high school. It has three stages: pre-school (*educação infantil*), fundamental education (*educação fundamental* – which combines primary and lower secondary education) and upper secondary education (*ensino médio*).

³ For basic education the federal government funds targeted programmes and provides a contribution to the FUNDEB redistribution fund in each state and the DF (*Fundo de Manutenção e Desenvolvimento da Educação Básica*). This is in total equivalent to around 10% of all spending on basic education in Brazil, but the proportion varies considerably per state.

⁴ Years 5 and 9 of fundamental education and the last year of upper secondary education.

3 Integrating the multi-level governance dimension into the audit of decentralised policies in Brazil

This chapter describes how the federal, state and municipal courts of accounts in Brazil can develop a multi-level governance (MLG) assessment framework for the audit of decentralised policies. It begins by proposing a four-step model that details the concrete actions that audit institutions should follow in developing a framework for specific policy sectors. It goes on to present a generic MLG assessment framework developed by the OECD for Brazil that can be used as a guide for developing sector-specific frameworks. The chapter then describes maturity indicators on key dimensions of the MLG system that should be assessed during the audit. Finally, it examines how this four-step model could be applied to the education sector in Brazil, taking as key input the generic model.

Introduction

The way in which multi-level governance (MLG) is structured – and its level of efficiency – are going to affect the design, implementation, and outputs of public policies with subnational impact. Effective multi-level governance can facilitate well-managed and co-ordinated public policies in decentralised policy areas and generate substantial savings. It is therefore important to have a clear overview of the capacities and resources at each level, to allocate responsibilities in the most effective way, and to develop co-ordination mechanisms between and across each level. Multi-level governance is all the more important in the context of federal countries, where sovereignty is shared between the federal government and the states and municipalities (see Chapter 1).

Brazil has a complex multi-level institutional and financial architecture. This complexity has implications for the overall performance of the decentralised system, as it poses a number of challenges for effective multi-level governance. To reach desired policy outcomes in Brazil, it is necessary to account for the linkages and the relationships between federal regulations and frameworks and municipal decision-making, but also between state and non-state actors involved in the design and implementation of social policies.

When conducting audits it is important to have knowledge about the system in which policies are operating. In the case of decentralised policies, analysis of the multi-level governance dimension is particularly crucial. An assessment of the multi-level governance allows a better understanding of the existing mechanisms and tools that are in place and potentially have an impact on the efficiency and effectiveness of policy delivery.

An assessment framework for multi-level governance

In order to better assess the effectiveness and efficiency of decentralised policies, auditors could integrate the MLG dimension into the audit process, once the audit topic has been selected and the relevance of MLG for this topic has been established (see Chapters 2 and 4).

For this purpose the OECD proposes to define maturity indicators that allow and facilitate identification of:

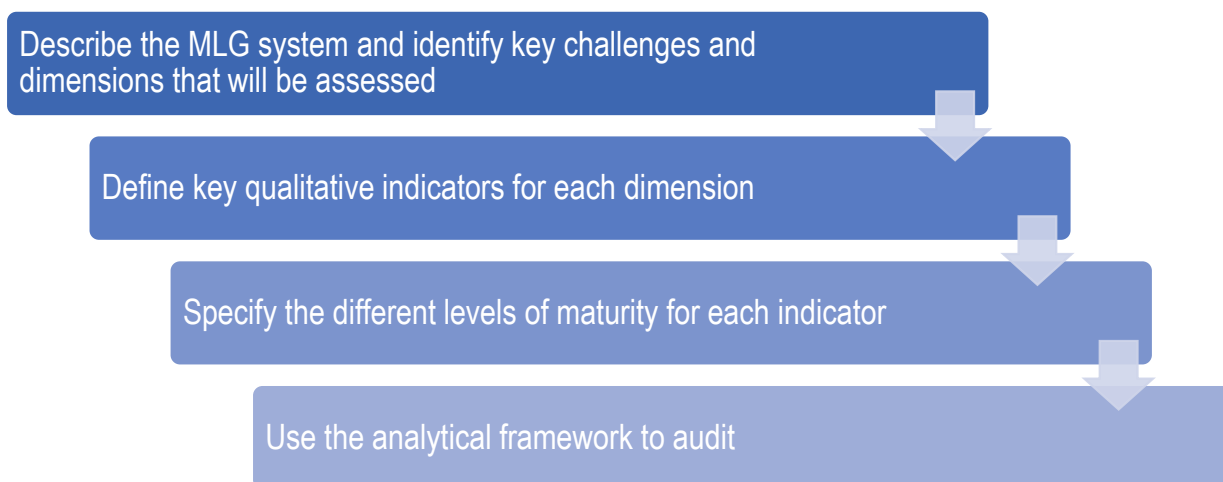
- the key elements that should be analysed in-depth during the audit, including a brief explanation of why the analysis is important
- the unit of analysis
- the level of maturity for each of those elements
- the sources of information that could be used to assess the level of maturity.

The OECD has developed a specific grid template for the maturity indicators that might be used. As will be mentioned below, the indicators to guide the audit should be defined during the pre-audit exercise.

Key steps in developing a framework for specific policy areas

The development of an assessment framework unfolds in several steps (see Figure 3.1). To maximise its usefulness, the collaborating audit entities are encouraged to design a framework for each policy area that will be audited. To facilitate this work, the OECD has developed a generic assessment framework, based on a general description of the Brazilian MLG structure. This generic framework identifies maturity indicators that could be integrated into the auditing of specific policy sectors.

Figure 3.1. Key steps in developing an MLG assessment framework for specific policy areas



1. Describe the multi-level governance system for a policy area and identify key dimensions that should be assessed during the audit

To develop an assessment framework for the audit of multi-level governance in a pre-selected policy area, it is important to describe in general terms how the MLG system works in that specific area. This description may allow auditors to identify the main MLG challenges faced by all levels of government.

The purpose of this step is not to perform a thorough and deep analysis of MLG, but rather to gain a comprehensive understanding of how the policy area to be audited works in a decentralised context.

For resources, audits institutions may:

- Use as a reference “Making Decentralisation Work: A Handbook for Policy-makers”, which details 10 guidelines for effective decentralisation (OECD, 2019^[1]), and the OECD Recommendation on Effective Public Investment across Levels of Government, which presents 12 principles for improving the MLG of public investments (OECD, 2019^[2]). Both documents include a grid of self-assessment indicators to help policy-makers identify the key issues they should focus on. The documents also include good practices from OECD countries.
- Establish a working group including representatives from federal, state and municipal courts of accounts that have experience and knowledge in the policy area that will be audited. This working group may discuss in detail how the policy works and the main challenges with regard to multi-level governance.
- Organise discussions with experts on the subjects to be audited. These discussions should focus on i) understanding how the policy works, and ii) identifying the main audit questions
- Review previous audits that have been performed in the policy area pre-selected, as well as any other relevant literature, to inform the description and identification of key issues.

When targeting the audit to a specific state or municipality, it is important to deepen the background focus on individual state or municipal governments. By examining the situation of given states or municipalities through national and international comparisons, the auditors will be able to identify the main challenges regarding multi-level governance that apply.

Having worked out a general description of the MLG system, audit institutions should identify the elements of the multi-level governance system that seem to be most crucial for efficient and effective policy delivery. The objective is to select the key issues and challenges of the MLG system that merit more in-depth assessment during the audit; the resources listed above should help in reaching consensus. Once the assessment framework is applied during the audit itself, different elements may arise that were not included in this first step. In that case, the assessment framework will need to be revised accordingly.

Box 3.1. Ten guidelines for making decentralisation work

The OECD has developed ten guidelines for implementing decentralisation, which apply to both federal and unitary countries. The guidelines are more than just recommendations: they cover key issues of decentralisation, with the objective of helping policy-makers implement reforms. The report “Making Decentralisation Work: A Handbook for Policy-Makers” further details the rationale for each guideline, offers practical guidance, identifies pitfalls to avoid, highlights good practices, and includes a checklist for action. The ten guidelines are summarised below.

1. Clarify the responsibilities assigned to different government levels:
 - The way responsibilities are shared should be explicit, mutually understood and clear for all actors. Clarity does not mean that shared responsibilities should be avoided, as this is by definition impossible. Equally important is clarity in the different functions that are assigned within policy areas – financing, regulating, implementing or monitoring.
 - Clear assignment is critical for accountability, monitoring and effectiveness of investment and service delivery policies. The more a responsibility area is shared across different government levels, the greater clarity is needed to reduce duplication and overlaps.
 - Since multi-level governance systems are constantly evolving, a periodic review of jurisdictional assignments should be made to ensure flexibility in the system.
2. Ensure that all responsibilities are sufficiently funded:
 - Access to finance should be consistent with functional responsibilities. Division of financing responsibilities should ensure that there are no unfunded or underfunded assignments or mandates.
 - The formulas for determining central government transfers, grants and earmarked funds from the centre to lower levels of government should be transparent and nondiscretionary.
3. Strengthen subnational fiscal autonomy to enhance accountability:
 - Subnational governments should have a certain degree of autonomy in the design and delivery of their public service responsibilities within the limits set by normative regulations, such as minimum service standards.
 - Subnational governments need own-source revenues beyond grants and shared tax revenues – and they need to develop other sources to have a balanced basket of revenues.
4. Support subnational capacity building:
 - Central government should assess capacity challenges in the different regions on a regular basis. Policies to strengthen capacities should be adapted to the various needs of territories. Governments should seek to reinforce the capacities of public officials and institutions in a systemic approach, rather than adopting a narrow focus on technical assistance.
 - Staff training in the basics of local public financial management should be established. Open, competitive hiring and merit-based promotion should be ensured.
 - Special public agencies accessible to multiple jurisdictions should be encouraged in areas of needed expertise (e.g. regional development agencies, public-private partnership units).
5. Build adequate co-ordination mechanisms across levels of government:
 - Since most responsibilities are shared, it is crucial to establish governance mechanisms to manage joint responsibilities. Creating a culture of co-operation and regular communication is essential for effective multilevel governance and successful long-term reform. Tools for vertical co-ordination include for example dialogue platforms, fiscal councils, commissions and intergovernmental consultation boards, and contractual arrangements.

- It is important to avoid multiplying co-ordination mechanisms with no clear role in the decision-making process.
6. Support cross-jurisdictional co-operation:
 - Horizontal co-ordination can be carried out using specific matching grants, and by promoting inter-municipal and interregional co-operation. Metropolitan governance should be promoted as well. The legal system at the national level should allow such tools.
 - Rural-urban partnerships should be promoted as a form of cross-jurisdictional collaboration to enhance inclusive growth by bringing multiple benefits, such as expanding those of agglomeration economies, to overcome co-ordination failures and strengthen capacity.
 7. Strengthen innovative and experimental governance, and promote citizens' engagement:
 - Citizens should be empowered through access to information. Ensure that elected local councils have the ownership and control of citizen participation and engagement initiatives.
 - Participatory budgeting has the potential to strengthen inclusive governance.
 8. Allow and make the most of asymmetric decentralisation arrangements:
 - Asymmetric decentralisation should be supported by effective vertical and horizontal co-ordination mechanisms, and needs to go hand in hand with an effective equalisation system.
 - An asymmetric decentralisation approach should be based on dialogue, transparency and agreements among all main stakeholders, and be part of a broader strategy of territorial development.
 - The way asymmetric responsibilities are allocated should be explicit, mutually understood and clear to all actors. To the greatest extent possible, participation in an asymmetric arrangement should remain voluntary.
 9. Consistently improve transparency, enhance data collection and strengthen performance monitoring:
 - National governments should develop performance-monitoring systems to track decentralisation and regional development policies: these need to remain simple with a reasonable number of requirements/indicators.
 - Higher-level governments need to monitor subnational performance in critical service areas based upon a minimum set of standardised indicators and provide timely feedback, as well as benchmark inter-local performance in service delivery.
 - Subnational governments need to be subject to higher-level regulations and fiscal rules to ensure fiscal discipline and fiscal sustainability.
 10. Strengthen national regional development policies and equalisation systems, and reduce territorial disparities:
 - The equalisation programme must not be viewed as separate from the broader fiscal system, especially conditional transfers. Equalisation arrangements need to be carefully designed to promote the tax and development efforts of subnational governments. Fiscal equalisation policies need in particular to be accompanied by proactive regional development policies to offset the potential negative incentives of such systems.

Source: (OECD, 2019^[3]).

In summary, the main result of this step should be a short report or paper prepared by audit institutions during the pre-audit exercise. The report should contain the inputs described above, along with the description of the main MLG challenges faced by all levels of government. It should include as a basis (but not be limited to):

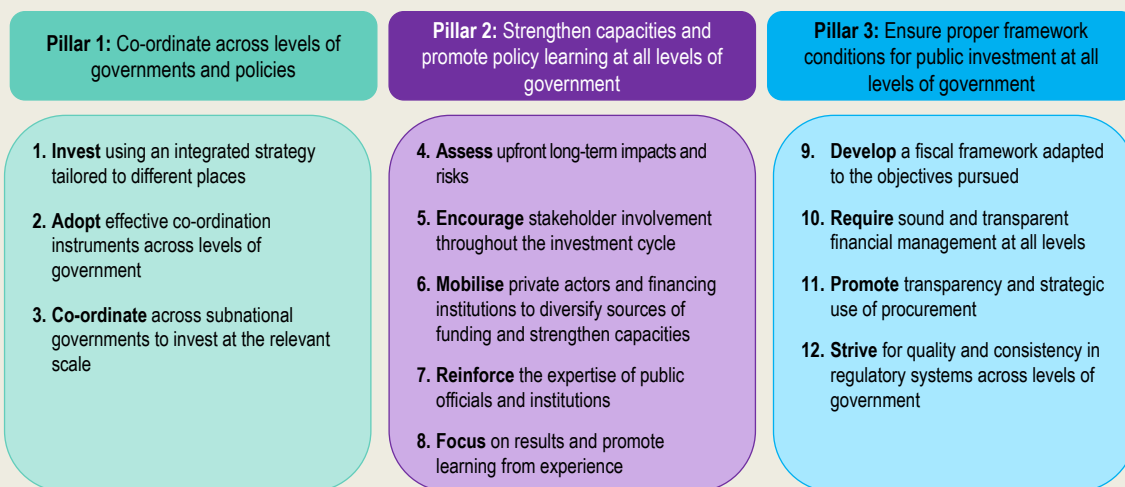
- i. An overview of the institutional structure in the policy area or sector.
- ii. How the responsibilities are assigned and financed across levels of government, and the relative importance of subnational governments as actors in policy delivery. This also implies looking at the degree of legislative control of each level of government and the degree of decision-making power.
- iii. The main co-ordination instruments and arrangements that are in place for the specific policy sector.
- iv. Clear identification of key elements of the multi-level governance system that will be assessed more in detail during the audit (e.g. assignment of responsibilities, vertical and horizontal co-ordination, capacity-building processes, fiscal framework, stakeholder engagement, evaluation and monitoring, etc.).

Box 3.2. The OECD Recommendation on Effective Public Investment across Levels of Government

In 2014, the OECD Regional Development Policy Committee endorsed the Recommendation on Effective Public Investment across Levels of Government. The Recommendation aims to help countries assess the strengths and weaknesses of their public investment governance capacity for regional development across all levels of government. It serves as a guide for setting priorities to improve the co-ordination mechanisms and capacities of subnational governments in the management of public investment.

The Recommendation sets out 12 principles grouped into three pillars of policy recommendations that represent three systematic challenges to efficiently managing public investment at both national and subnational levels. These principles cannot be seen in isolation; they offer a whole-of-government approach that addresses the roles of different levels of government in the design and implementation of critical and shared responsibility. All the principles are complementary and there is no hierarchy among them.

Figure 3.2. The 12 principles of the OECD Recommendation



Source: (OECD, 2019^[41]).

2. Define key maturity indicators for each of these dimensions

As a second step, the auditors should ascertain the development level of each of the key dimensions identified in the previous step, using the different qualitative maturity indicators. These correspond to specific and measurable aspects that auditors should consider when assessing performance of multi-level governance associated with the specific policy under evaluation. It is crucial that the indicators are clear and understandable to all audit entities involved; that they are consistent and do not overlap; and that they capture any complementary features of the MLG system.

For each maturity indicator, the assessment framework should specify:

- *The unit of analysis* – Identify whether or not the indicator is intended to capture an issue in which all levels of governments (federal, states and municipalities) are involved. If the unit of analysis is the municipality, the indicator has to consider elements that can be controlled solely by the municipality.
- *The description and rationale* – This category should specify the rationale for including the indicator in the framework, including a description of the criteria for describing the maturity levels, its main characteristics, and its relation to multi-level governance issues, using clear, concrete and plain language.
- *The source of information* – The framework should also specify all the different and complementary sources of information that should be used during the assessment. This list is not exhaustive and may be changed and adapted during the audit process itself. The sources of information can be but are not limited to laws and regulations, fieldwork (for example, in the form of interviews or focus groups with different stakeholders), previous audits, policy and programme evaluations conducted by the policy owner or experts/academics, qualitative surveys and financial accounts.
- *Diagnostic question* – Specify the main question that allows evaluating the degree of maturity for each indicator (see next step). This helps in clearly stating the main issue that the indicator intends to capture.

Table 3.1. Example of a maturity indicator for the assessment framework

Dimension 1: Assignment of responsibilities
Criteria: Clear definition of responsibilities across levels of government
Unit of Analysis: All levels of government
Criteria description (rationale): A clear and transparent division of powers implies that the responsibilities of various levels of government must be codified in significant detail in legal and regulatory frameworks, and/or intergovernmental agreements, among others. The more a responsibility area is shared across different government levels, the greater will be the clarity needed to reduce duplication and overlaps, particularly in deferral contexts.
Source of information: Law, regulations, and field work (interviews, focus groups)
Diagnostic question: To what extent do laws/regulations clearly specify the responsibilities of the different levels of government?

3. Specify the different levels of maturity for each indicator

As a third step, auditors have to set maturity levels corresponding to the different levels of accomplishment of each indicator. The OECD suggests that each indicator identifies three levels of maturity as follows:

1. *Initial/Basic level* – The first maturity level considers the basic actions that the unit(s) of analysis can take in the different indicators. It indicates that the conditions are not necessarily in place or not functioning well.
2. *Satisfactory/Partial achievement* – The second level of maturity reflects that the dimensions involved are better understood, bringing some level of organisation, standardisation and

systematisation to practices. It signals that the unit of analysis has implemented some steps to advance but that improvements are still needed.

3. *Optimised/good performance* – The third level of maturity represents best practice for each indicator and reflects that the system in place works in a satisfactory way. This best practice indicates that the unit(s) of analysis has/have proactively implemented measures allowing them to perform at their best. This level might reflect good practices from different OECD countries.

To develop the descriptions for each maturity level, auditors ideally would take into account the three principles below:

- *Existence* – To what extent does the practice/situation exist in the unit(s) of analysis (e.g. a state or a municipality)?
- *Quality* – To what extent is the practice implemented as planned? To what extent does it yield expected results (i.e. contributing to the corresponding capacity and goal)? And, where applicable, to what extent is it tailored to different situations or audience?
- *Frequency* – Where applicable, to what extent does the practice occur – e.g. continuously, regularly, or on an ad hoc basis?

The quality principle should prevail. Thus for individual criteria, even if the practices are regularly undertaken but there are deficiencies in implementation, or the results do not yield expected outcomes, the maturity level should be considered “partial” (level 2) or “basic” (level 1).

Each maturity level should include a clear and as detailed as possible description of each of the three levels to provide guidance and ensure consistency throughout the ranking process. Auditors can then assess the degree to which the situation of the unit of analysis corresponds most, in accordance with the various maturity levels.

Figure 3.3. Example of maturity levels

Maturity levels		
The sharing of responsibilities and functions is not clearly stated in law/regulations.	The law/regulation clearly identifies which level of government is responsible for service provision and evaluation in each sector but the responsibilities themselves are somewhat ambiguous in practice.	All levels of government clearly identify their responsibilities and functions, for own and shared competences.
Basic Level	Partial achievement	Good performance

4. Apply the MLG assessment framework to audit

Once the assessment framework has been defined, it can be used as the main reference to design and plan the audit process. The main result of this design phase is the audit plan, which usually includes audit objectives, scope, criteria, evidence collection and analysis techniques.

The design phase requires auditors first to consider assessing auditability and understanding what will be audited (INTOSAI, 2019^[5]). In assessing auditability, auditors need to check whether it is possible to set audit criteria and whether the information required is likely to be available and can be obtained without difficulty. Understanding the topic or object to be audited is important in any type of audit, but in performance audits it can be crucial. They involve a continuous and cumulative process of gathering and assessing information at

all stages of the audit, but in particular in the design phase, formulating and testing initial hypotheses and revisiting the auditability question. Good practice is to carry out the process in a pre-audit study.

In that respect, development of the MLG assessment framework for a specific decentralised policy area can indeed be considered a pre-audit or preliminary study. The SAI can also consider publishing this study not as an audit, but as an alternative product to highlight certain issues that may require the attention of the government and other stakeholders (see Box 3.3 for examples).

Box 3.3. Examples of SAI alternative products

The National Audit Office of the United Kingdom

The National Audit Office of the United Kingdom (NAO) conducts investigations to establish facts that may point to potential concerns about public spending issues, such as service failures or financial irregularities. These concerns may be raised by MPs, the media or the public, or be identified through the work of the NAO itself.

These investigations uncover the facts rather than evaluating consequences as would audits, so they can report rapidly to address live and emerging issues and provide parliament with timely reports.

The investigation may give rise to lessons, which in turn contribute to NAO good practice guides and frameworks. For instance, the investigations of “Programmes not achieving their aims” – e.g. the Investigation into the Department of Energy & Climate Change’s loans to the Green Deal Finance Company and Investigation into Just Solutions International – contributed to the NAO Framework to Review Programmes.

The Netherlands Court of Audit

The NCA has a long-standing practice of publishing background reports. These reports are descriptions of usually complicated systems having to do with oversight and public accountability. They are meant to inform decision making in parliament.

For instance, in 2009 the NCA published an exploratory study of the system in place to supervise the stability of the financial system in the Netherlands. De Nederlandsche Bank (DNB) exercises this supervision. The report highlights tensions that are inherent in the supervisory system and draws attention to a number of critical themes.

In its strategic work on accountability and oversight of non-governmental organisations that execute a statutory task (e.g. schools, hospitals, environmental management, issuing car registration etc.), the NCA published a number of comparative studies and background reports between 1998 and 2009. The purpose of the reports was to clarify certain issues and develop criteria for good governance in these types of non-governmental bodies and arm’s-length institutions.

These reports not only inform parliamentarians, but also are used by academia and the leadership of these organisations.

Sources: (NAO, 2018^[6]) (NAO, 2016^[7]) (Algemene Rekenkamer, 2000^[8]) (Algemene Rekenkamer, 2009^[9]).

The rigour with which the MLG assessment framework has been developed will facilitate the next steps of designing the audit. The framework describes audit questions, audit criteria – in terms of maturity levels – and information to be collected in order to establish whether these criteria are met.

In case the audit is going to be a collaboration among different audit bodies, the audit design matrix, pertinent audit questions, criteria and information can be based on the MLG assessment framework, facilitating the division of work and at the same time ensuring internal consistency.

Develop a generic multi-level governance assessment framework for Brazil

Following the methodology described in the previous section for Steps 1-3, the OECD has developed a generic assessment framework for multi-level governance in Brazil. This generic assessment framework may facilitate and guide audit entities in identifying which key MLG dimensions deserve deeper analysis (Step 1), where and how this information may be gathered (Step 2), and what features represent good practices based on OECD standards (Step 3).

The generic framework identifies maturity indicators that could be integrated into the auditing of specific policy sectors. It serves the purpose of guiding and facilitating the work of the audit institutions while preparing the assessment framework for specific policy sectors, including the selection of indicators. The assessment framework for education policy in Brazil, presented in the next section, was also developed taking this generic framework as a reference. Below are details of each step followed by the OECD to prepare it.

Description of the multi-level governance system and identification of key elements

The OECD first conducted a literature review to develop an overview and general description of the main decentralisation and multi-level governance features of Brazil. This review was based, among other things, on OECD reviews and databases, as well as academic papers and Brazilian law and regulations on decentralisation and multi-level governance in the country. The details of this overview were presented to the project partners in a background paper. A summary is given in Box 3.4.

Box 3.4. Overview of the decentralisation and multi-level governance systems in Brazil – Key findings

Decentralisation in Brazil

The main features of the decentralisation system in Brazil, focusing on the local level, can be summarised as follows:

- Brazil stands out as an exception among federal countries, with a more prominent role played by municipalities, a high degree of local autonomy and no hierarchical relationship between state governments and municipalities.
- While Brazil is considered a highly decentralised country according to traditional indicators, the autonomy of state and local governments is somewhat limited by a rigid fiscal system and frequent overlap of responsibilities.
- Both states and municipalities are important social and economic actors in Brazil. Subnational governments in Brazil accounted for 44% of total public expenditure and 19% of GDP, above the OECD average (40% and 16% respectively in 2016); specifically, municipalities accounted for 19.3% of total public spending in 2016.
- The main expenditure areas of municipalities were education (26.6% of municipal expenditure), health (24.3%) and general public services (20.3%). Brazilian municipalities' role in public investment has, however, been decreasing in the past year, from around 41.3% of total public

investment in 2016 to 36% in 2018, and the overall public investment level remains low in Brazil compared with other Latin American and Caribbean countries (OECD, 2019^[10]).

- Tax and own-source revenue represent a significant share of subnational total revenue (78% for states and 34% for municipalities in 2016). There is also a system of equalisation transfers through the apportionment of revenue from tax collection by the Union among the federated entities. This mechanism aims to alleviate regional inequalities at the state and municipality levels. The State Participation Fund (FPE) and the Municipality Participation Fund (FPM) are the main fiscal equalisation transfers.
- Most expenditure and revenue flows in Brazil are earmarked and a large share of expenditure is mandatory (Constitution of the Federative Republic of Brazil, Art. 212).

Multi-level governance in Brazil

- Brazil has a highly complex, multi-level institutional and financial structure. This complex architecture has implications for the overall performance of the decentralised system, drawing a number of challenges for multi-level governance to work effectively.
- At the vertical level, municipalities and state governments in particular have a relatively strong political and financial autonomy, considering the limitations stated above. At the horizontal level, Brazilian institutions tend to work mostly in-silo, meaning that each sectoral ministry has its own territorial vision and does not necessarily co-ordinate with other ministries. Besides, a large number of municipalities rely on non-state actors from the private sector and civil society to provide social services.
- Several bodies dedicated to intergovernmental dialogue have been suspended in the recent years (e.g. the Ministry of Cities, and the National Council for Cities, which was in charge of implementing and monitoring the National Policy for Urban Development).
- Two forms of multi-level arrangements are particularly common in Brazil: Contract agreements and federative pacts. In addition, some ministries have developed mechanisms on their own to ensure vertical co-ordination. This is the case for instance in the health sector, which is decentralised largely to state and municipalities.

Source: (Zapata and Lafitte, 2020^[11]).

When analysing this overview in relation to the OECD guidelines for making decentralisation work (OECD, 2019^[3]), it was clear that a generic framework for Brazil needed to include at least a focus on: i) the assignment of responsibilities and instances where these are unclear or overlapped; ii) the funding of those responsibilities to detect unfunded or underfunded mandates; iii) the co-ordination mechanisms in place to align priorities and investments; and iv) territorial disparities and the mechanisms in place to reduce them.

The OECD also undertook several discussions and exchanges with a diverse set of experts on multi-level governance and decentralisation in the country, including discussions with experts in the framework of an OECD mission to Brasilia. The OECD also benefited from the feedback and exchanges with the Federal Court of Accounts (*Tribunal de Contas da União*, TCU) and the state and municipal courts of accounts (*Tribunais de Contas do Estado* [TCEs] and *Tribunais de Contas dos Municípios* [TCMs], respectively) during missions or virtual conferences. In July 2019 for example, the TCU and courts of accounts (TCs) participated in a session to discuss the main multi-level governance challenges in Brazil. On this occasion, in addition to the elements previously highlighted, participants also noted that challenges linked to capacities of local governments, as well as those regarding access to data, transparency and accountability, were crucial issues in Brazil.

This exercise led to the OECD selecting six dimensions that raise key challenges for the efficient functioning of the multi-level governance system in Brazil (see below). They are:

1. assignment of responsibilities
2. funding of subnational responsibilities
3. capacities of subnational governments and capacity building
4. co-ordination among levels of government
5. performance monitoring and transparency
6. fiscal equalisation systems and regional policies to reduce territorial disparities.

These dimensions also combine different key factors identified in the [10 OECD guidelines on making decentralisation work](#), and the [OECD Council Recommendations for Public Investment across Levels of Government](#). At the same time, as explained above, these six categories bring together the main points of interest for Brazilian institutions, experts and stakeholders. The OECD has selected these six dimensions, among other things, for the focus of the analysis. These should not be considered an exhaustive list of the multi-level governance challenges in Brazil; they can be revised and refined depending on the needs and evolution of the country and its audit institutions. For example, audit institutions may consider relevant the stakeholder engagement dimension more in-depth.

Why is it important to focus on these six dimensions in the generic MLG assessment framework?

1. Assignment of responsibilities

In OECD countries, responsibilities over a wide range of policy sectors are shared across levels of government. In many cases, regional responsibilities and functions (regulating, operating, financing and reporting functions) are shared with other institutional government levels, be they central or local. The extent of responsibility-sharing depends on the service in question. For example, responsibilities tend to be shared more often in public transport than in childcare or elderly care. Because subnational governments are embedded in national legislative frameworks, truly exclusive competencies rarely exist, even in federal countries. Countries share responsibilities for functional or financing reasons, through explicit legislation or through residual policy acquisition (Allain-Dupré, 2018^[12]).

Due to the complexity of interactions in shared rule, there are many ambiguities in the assignment of responsibilities. In OECD countries, the unclear allocation of responsibilities and functions is particularly notable for policy areas such as infrastructure (transport), education, spatial planning, health and labour market policy; all of these often involve multiple tiers of government. Unclear assignment, when it is not driven by a precise objective, poses major obstacles in ensuring overall efficiency of public investments and local political accountability.

A principled and transparent division of powers is crucial for governments to deliver on their mandates and be held accountable by citizens. This is especially desirable for shared rule, i.e. when a function is the joint responsibility of several levels of government – as is often the case in the provision of education, health and social welfare due to their redistributive nature. These services are best provided locally when it comes to preference matching and tailoring of programmes to specific local needs, but at the same time higher-order legislative frameworks and financing may be required for equitable provision. Lack of clarity in the division of powers for concurrent/shared responsibilities contributes to government failures and/or inefficiency and inequity in public service provision.

Clarifying the allocation of responsibilities and functions is even more crucial in federal countries where responsibilities in a single sector can be shared between the federal, state and local government levels. Blurred definitions of these responsibilities can lead to misinterpretation and put more weight on the

municipalities, especially in sectors such as education, health, land use, or climate actions. There is often a lack of clear definition in the legislation of the allocation of competencies in Brazil. This issue is an ongoing subject of discussion in Brazil; it was raised recently in debates over PEC 188/2019, which supervises the decentralisation of resources for states and municipalities. There is no general consensus as to how the relationship among governments should be redefined (Senado Noticias, 2019^[13]).

2. Funding of subnational responsibilities

Local governments often have rigid budgetary arrangements and reduced financial room for manoeuvre. This is particularly relevant in Brazil since the new fiscal regime was approved by the 2016 Constitutional Amendment (EC 95/2016); the regime requires a 20-year period of fiscal consolidation, including in primary sectors (e.g. health and education). Indeed, tax and own-source revenue represented 34% of total municipal revenue in 2016 in Brazil, against 65% for transfers from the Union and state governments (compared to 44.5% and 37.2% respectively on average in the OECD area) (OECD, 2019^[10]). This can create unfunded and underfunded higher-level mandates, undermine local accountability, and endanger service provision.

In federal countries in particular, regional disparities in spending across jurisdictions may be a warning sign of underfunding. In this regard, choices regarding subnational transfers, own revenues and borrowing should also be determined by the need for aligning policy objectives. Transparent, stable and regular intergovernmental fiscal arrangements tend to determine to a large extent subnational governments' financial capacity to invest. In addition, the conditions for mobilising own-source revenue depend on the legal framework and the possibility for municipalities to create new taxes and fees, or their room for manoeuvre in acting on the tax rates or bases. In this category, multi-level governance criteria could be complemented by quantitative criteria on subnational finance (Frente Nacional de Prefeitos, 2020^[14]). The Brazilian fiscal system is particularly rigid in this regard (Fernandes and Santana, 2018^[15]). Most intergovernmental relations, particularly in relation to tax revenues, are detailed in the Federal Constitution, and therefore cannot be established or modified by the federal political or economic authorities without an amendment to the Constitution. The Federal Constitution defines the taxation responsibilities for each federative entity, and it establishes basic rules for the collection of subnational taxes. However, the Union tends to rely heavily on tax waivers and social contributions, which reduces the tax base and undermines fiscal autonomy at lower levels of government (OECD, 2019^[16]).

3. Capacities of subnational governments and capacity building

The capacity of local governments varies greatly within countries, and the capacity gap between rural localities and large metropolitan areas can be substantial. Large regions, particularly those that are more autonomous and have numerous staffs, can tap into a diverse range of professional skills. The same is not necessarily true for small regions, municipalities, newly created regions, or where decentralisation reforms have outpaced improvements in administrative capacity. Larger municipalities, on the other hand, face complex tasks and might not have the workforce skills to address those tasks effectively. Defining, structuring, implementing, operating and monitoring public policies and programmes all require a very diverse set of capacities, which need to be assessed at every stage of the policy cycle.

In Brazil, the low level of capacities to design and implement policies at the Union, state and local levels is probably one of the most important bottlenecks for effective public service delivery. For example, Brazilian subnational governments often lack access to information on existing federal programmes: They do not have the sufficient capacity to understand how they could benefit from them, and lack the tools and knowledge to apply to these programmes or approach the federal authorities.

Building and strengthening subnational capacities in any country is a long-term commitment that requires sustained resources and political will from both subnational and central/federal government levels. This is particularly true in countries with a high rate of commissioners or consultants working in public

administration – as is the case in Brazil (OECD, 2020^[17])– hence the necessity to identify municipalities with the greatest capacity problems. This is a prerequisite for public and private institutions to be able to target capacity-building programmes to the municipalities that need it the most (OECD, 2013^[18]).

Attention must also be paid to the capacity of municipalities to innovate and draw inspiration from other localities and international good practices. Knowledge sharing can take place through observatories inventorying good practices, or city networks, that can catalyse the development and implementation of policies at the local level by providing advice and guiding local governments. The exchange of good practices among subnational governments can also ensure that innovative solutions are adopted more widely.

4. Co-ordination among levels of government

Quality investment and service delivery require effective co-ordination arrangements to ensure that strategies and priorities at both the national and subnational levels are working in harmony. Co-ordination among levels of government is particularly necessary when it comes to shared and overlapping responsibilities, as is often the case in federal countries. Co-ordination is not limited to government entities; it can also extend to other stakeholders. It can help to align priorities and objectives and to overcome challenges posed by unclear assignment of responsibilities or by a series of information, financing, and capacity gaps that impede efficient use of resources. This complexity is exacerbated in Brazil, a country where coalition governments make co-ordination among ministries that much more difficult (OECD, 2013^[18]). Both horizontal and vertical co-ordination are therefore crucial to limit the growth of inequalities and ensure coherent policies in unitary and federal countries. Through enhanced dialogue and exchange of information, well-managed co-ordination can also reinforce trust among the different levels of government and lead to more effective policy implementation.

Co-ordination mechanisms also need to be strengthened by the centre of government which has the capacity to steer policy development and implementation through a supporting and advisory role for subnational governments and non-governmental stakeholders. Effective policy co-ordination in fact calls for a whole-of-government approach, where the centre of government shares with other government actors some key responsibilities, such as supporting effective decision making; overseeing the quality of the policy process; facilitating policy co-ordination; communicating relevant policy messages; and monitoring and evaluating outcomes (OECD, 2018^[19]). This changing role of the national government is a key trend in several OECD countries where national-level governments are increasingly playing a strategic role focused on setting objectives, co-ordinating policy and monitoring performance (OECD, 2019^[3]; OECD, 2017^[20]). The role of the centre of government in Brazil must be seen in the light of political situations and evolutions over recent years. As of 2017, Brazil is among the countries where senior management in the centre of government changes the most with a change of government. That can entail particular difficulty in ensuring the continuity of supervisory responsibilities over the long-term (OECD, 2018^[19]).

Multi-level co-ordination can also enable better adjustment of policies to the needs of different localities. When decisions are taken in silos, resources are more likely to be assigned to policies that do not necessarily respond effectively to local needs. It is through joint actions that policies and service delivery may target the proper scale, internalising positive or negative spillovers and implementing the complementary measures needed to make the most of the interventions. Multi-year programming and policies can further support a co-ordinated approach and enable better forecasting and alignment of objectives across levels of government.

Horizontal co-ordination can also offer significant advantages in terms of policy delivery and efficiency of public investments. It can be fundamental in avoiding duplication of unsustainable investments at the subnational level, and in promoting economies of scale for investments and service delivery. Horizontal co-ordination can take the form of inter-municipal or inter-state co-operation, through which subnational governments can choose to join forces if this is the way to improve their efficiency and effectiveness

(e.g. *Arranjos de desenvolvimento da educação* arrangements for education development in the education sector). For certain services for instance, efficient provision might be ensured when the service is provided by a group of municipalities covering a bigger territorial area than the municipality itself. Sometimes, legal requirements for services like waste management, water supply, transport and economic development need to be delivered through some form of inter-municipal co-operation (Council of Europe, 2010^[21]).

While policy-makers recognise the advantages that it can bring, co-ordination is in general difficult to put into practice. Policy-makers from different sectors and levels of government tend to work in silos. Transaction costs and often a degree of competition for funds can be important barriers to co-ordination. It is not surprising that, for example, among the 15 dimensions of institutional quality for efficient public investment management listed by the International Monetary Fund, central-local co-ordination is the one where advanced economies tend to fare the worst (IMF, 2015^[22]). Transaction costs, competitive pressures, resource constraints, differing priorities, and fears that the distribution of costs or benefits from co-operation will be one-sided can all impede efforts to bring governments together. National and subnational governments often recognise that co-ordination represents a major challenge for them.

5. Performance monitoring and transparency

Performance monitoring and evaluation (M&E) mechanisms are essential for clarifying the outcomes to be achieved and improving the efficiency and effectiveness of different policies. In the early stages of the policy cycle, *ex ante* appraisal can facilitate the prioritisation of projects and offer insights into the potential territorial impacts and benefits of spending decisions. Tools for *ex ante* appraisals/analyses are diverse; they may include for example cost-benefit analyses, environmental impact assessments, and territorial impact assessments. As to investment, *ex ante* assessments serve to assess long-term operational and maintenance costs from the early stages of the investment decision (Mizell and Allain-Dupré, 2013^[23]). Subnational governments could require *ex ante* appraisals to encourage actors to produce high-quality/high-accuracy assessments when undertaking decision-taking processes.

Sound M&E can also help to identify challenges and obstacles that hinder effective policy implementation, as well as show the way forward to address the challenges, based on better appraisal and lessons learned about what has worked (or not) in the past. Governments should encourage the production of data at the right territorial scale to inform policies and produce evidence for decision making. To achieve such comprehensive assessments, it is also necessary that evaluation and monitoring criteria and mechanisms be defined early in the policy design process, and should not be limited to budget execution (OECD, 2018^[24]).

Then focusing on performance through M&E mechanisms, including a clear indicators system, allows improving the efficiency and effectiveness of public policies, investment and service delivery. For instance, the municipality of Brusque in Brazil is aggregating information from the state education from the various budgets (OECD, 2019^[16]). It does so by linking policy objectives with outcomes, revealing information throughout the policy cycle that should feed into decisions regarding policies in subsequent stages. Still, setting evaluation standards and using their results in future interventions are not always easy. Beyond the capacity needs involved, policy M&E entails additional costs that need to be balanced with the need to pursue effectiveness (OECD, 2019^[4]).

6. Fiscal equalisation systems and regional policies to reduce territorial disparities

OECD countries face increasing territorial inequalities. This is particularly true in countries where regional governments have varying fiscal capacities and varying fiscal needs, and therefore varying ability to provide local public services. Among those countries is Brazil, where the level of regional inequalities, while decreasing in recent decades, is still among the highest in the world. These territorial disparities are due in part to municipalities having widely varying levels of resources, both quantitative and qualitative, to carry out their responsibilities (OECD, 2019^[10]).

Equalisation systems, as part of a broader fiscal framework, may contribute to reducing territorial inequalities. Fiscal equalisation aims to correct imbalances among subnational governments and thus foster equity among territories, be they regions or localities, rural or urban. There is a large array of equalisation mechanisms, both vertical and horizontal. Equalisation arrangements, if they are carefully designed, can sustain subnational governments most in need, while promoting the tax and development efforts of subnational governments of various types. They can also play a positive role in strengthening an internal common market and a unified economic, social and political union.

However, fiscal equalisation systems are often contested for their complexity, lack of transparency, and potentially negative incentive effects on tax base development in both wealthier and most-in-need territories. To offset these potential negative effects, fiscal equalisation policies need in particular to be accompanied by proactive regional development policies (OECD, 2019^[3]). Most OECD countries have such policies in place to reduce territorial disparities, in particular between urban and rural areas. In Brazil, the National Policy for Regional Development (*Política Nacional de Desenvolvimento Regional*, PNDR), last updated by Decree no. 9.810 in 2019, is a legal instrument to guide the federal government's action towards reducing economic and social inequalities across the regions, and promoting more territorially balanced growth. Its implementation remains limited, however, and the policy has until now failed to meet its objectives, partly due to a lack of political consensus (Santos, Bessa and Lucio, 2017^[25]).

Define maturity indicators for each dimension

For each of the above dimensions, the OECD has identified several maturity indicators that audit authorities should consider when assessing the multi-level governance performance of state and municipalities in Brazil. For each indicator, a detailed description is provided as a reference of “good practice” as well as the rationale for choosing it; also included are a description of the indicator, its main characteristics, and its relation to multi-level governance issues. Each maturity indicator also details the sources of information for the TCs to assess the state or municipality situation and so be able to identify the level of maturity of each criterion. The model specifies a three-level maturity scale associated with different colours: Red for low, yellow for medium, and green for satisfactory level (see below).

This generic assessment framework on multi-level governance can serve as a guide for TCs to develop their own document, to orient audit of multi-level governance in decentralised policy sectors. It provides a guide to the main issues that should be assessed in depth to evaluate the degree to which state and municipal governments in Brazil are equipped to design, implement and evaluate decentralised policy responsibilities and functions. It is important to consider that this tool is flexible in terms of applicability and can, with adjustments, be used at the state and municipal government levels. It can also be adjusted to fit with various sectors of decentralised policies (education, health, etc.).

The different maturity levels were defined based on the 10 guidelines for making decentralisation work (OECD, 2019^[3]) and the OECD Recommendation on Effective Public Investment across Levels of Government (OECD, 2019^[2]).

A summary of the maturity indicators included in the framework can be seen in Table 3.2 and the comprehensive generic assessment framework, with an explanation of the rationale, the unit of analysis, the sources of information and the three maturity levels, can be found in Annex 3.A.

Table 3.2. Summary of the maturity indicators of the generic assessment framework on multi-level governance

Dimension I: Assignment of responsibilities
Clear definition of responsibilities across levels of government
Clear and coherent allocation of functions across levels of government
Municipal spending autonomy
Accountability of subnational governments
Public service provision coverage
Citizens' engagement
Dimension II. Funding subnational governments
Funding of core responsibilities
Tax autonomy
Intergovernmental transfers
Municipal financial management
Use of innovative financing mechanisms
Municipal debt and borrowing
Dimension III. Capacities and capacity building
Subnational strategic capacity
Staffing needs
Capacity building for subnational administrations
Technical guidance documents
Digital tools
Subnational capacities for public investment
Horizontal co-ordination and knowledge sharing for capacity building
Dimension IV. Co-ordination among levels of government
Consistent legal and regulatory frameworks
Vertical co-ordination for policy planning
Co-ordination arrangements for financing
Multi-year programming
Participatory/citizens budgets
Resolution of conflict between municipal, state and central administrations
Horizontal co-ordination for service provision
Cross-jurisdictional partnerships involving investment
Dimension V. Performance measurement
<i>Ex ante</i> analysis to inform decision making at different stages of the policy process
<i>Ex post</i> evaluations to improve performance all along the policy cycle
Outcome-based performance systems for social policies
Guidance documents for rigorous monitoring and evaluation
ICT tools and new technologies for performance evaluation
Benchmarking analysis for performance measurement
Transparency and reporting
Availability and transparency of administrative procedures
Dimension VI. Territorial inequalities
Fiscal equalisation focusing on fiscal needs
Simple and clear fiscal equalisation system
Regional development policies to reduce inequalities

A multi-level governance assessment framework for the education sector in Brazil

This section illustrates how Brazilian audit authorities could apply the methodology described in the previous section for Steps 1-3 to a particular policy sector, in this case, education. For this, to illustrate step 1 *Describe the MLG system for a policy area* the first subsection provides a general overview of the main challenges of the multi-level governance system in education policies in Brazil. The second subsection provides a more detailed analysis of the selected six dimensions. Each subsection details how the OECD proceeded to elaborate the general overview and the selection of the six dimensions. This analysis, was also developed taking the generic framework developed in the previous section as a reference. Based on this, the Annex details examples of maturity indicators that audit institutions may use to audit education policies in Brazil.

It is important to recall that the implementation of Steps 1-3 of the model presented in this chapter is not a full and detailed assessment of how the MLG system works in the country for a specific policy sector. The main purpose is to provide a general description of how the system works in order to identify the main key challenges that deserve a deeper analysis. During the audit, audit institutions will be able to conduct a deeper analysis of the MLG system guided by the maturity indicators.

Describe the MLG system for a policy area

To describe the MLG system assessment framework for the education sector in Brazil, the OECD conducted a short literature review on the topic. Besides academic papers, the OECD referred to previous OECD studies where the MLG of the education sector was described and assessed.

Overview of the key challenges of the multi-level governance of education policies in Brazil

The multi-level governance of education policy is particularly relevant in Brazil where the education system is highly decentralised, with one federal district, 26 states and 5 570 municipalities, each with their own school system. The responsibility for the provision and oversight of public crèches and basic education is shared among the different levels of government. While responsibility for providing strategic direction and a substantial proportion of public funding lies with the federal government, constitutional responsibility for providing early child education and care (ECEC), primary and secondary education rests primarily with the states and municipalities. Municipalities are responsible for most of pre-school and fundamental education, while state governments are in charge of secondary education (OECD/UCLG, 2019^[26]). Moreover, states and municipalities may establish their own goals and political strategies for education. The Ministry of Education is entitled to play an important role in setting overall education policy setting guidelines for the organisation of educational programmes, and organising national assessment systems. In this context, a key challenge for the audit process of education policy is the multiplicity and diversity of actors involved in governing and providing educational services to citizens in Brazil.

This high level of decentralisation and complexity results in considerable variation in teacher labour markets, curricula, levels of access to schooling and management systems, and local education plans (Carnoy et al., 2017^[27]). Teachers' career plans and salary grades, for instance, are set up at state and municipal levels. Since 2016, however, there has been a recentralisation of the national programme, with the release of a National Common Curricular Basis (BNCC), whereas before that, local schools each had their own curriculum.

Research has highlighted important disparities in quality between urban and rural schools, and between richer and poorer regions of Brazil identifying it as a key challenge of education policy (Bruns, Evans and Luque, 2011^[28]); (Pereira and de Castro, 2019^[29]). Municipalities vary greatly in size, internal organisation, resources and administrative capacity with a direct impact on the performance of the education sector. When considering the Municipal Human Development Index (IDHM) for Education, more than 50% of

municipalities in the South and Southeast regions registered medium or high levels. In the North and Northeast regions, however, 90% of municipalities were ranked in the very low or low levels of the Index (PNUD, 2016^[30]). Furthermore, in urban areas all states lie at the medium or high level of IDHM Education, whereas in rural areas all states presented very low or low levels (Pereira and de Castro, 2019^[29]). Another noteworthy data is Brazil's aggregate illiteracy rate, which was 10.2% in 2010, but with 7.54% of illiteracy in urban areas and 24.64% in rural areas (Pereira and de Castro, 2019^[29]). The current multi-level governance framework of education addresses some of these challenges, through financial and technical assistance to municipalities the most in need. However, key challenges remain for several municipalities, in particular those in rural areas and in the north and northeast regions.

Identify the key elements that should be further assessed

To identify the key elements of the education sector that an audit might focus on, the OECD used different means, among which:

- The literature review used to describe the MLG system
- Discussions with key experts on the education sector in Brazil and revision of presentations made in conferences on the topic
- Discussions and inputs from the TCU and TCs with experience in auditing education policies
- Review of key fiscal data
- The generic assessment framework developed by the OECD (see Annex 3.A)

Resulting from this process, the OECD identified six key elements that should be assessed more in detail during the audit of education policy at the municipal level. These six dimensions are described below.

Based on this exploratory exercise, the OECD has then developed the assessment framework by designing maturity indicators. The full table with the maturity indicators can be found in Annex 3.A. As a dynamic process, the TCU and TCs may consider adapting this framework if they consider it appropriate.

Dimension 1: The assignment of responsibilities in the education sector

In Brazil, as in many other federal countries, education is a shared responsibility among the municipalities, the states and the federal government. It is set in the Brazilian Constitution (1988) and the Law of Directives and Bases of National Education (LDB) (Law n° 9.394/1996). Municipalities are responsible for primary and lower secondary education, whereas state governments have the competency to provide both lower and upper secondary education. The Union is in charge of the management of higher education and vocational training. The LDB commands states to prioritise high schools and leave the lower secondary education level to municipalities, under their guidance (Castro, M. H. G., 2010^[31]); (Bruns, Evans and Luque, 2011^[28])).

This shared-responsibility for secondary education creates important challenges of duplication and fragmentation in education delivery, as it is the case in several OECD countries where responsibilities are shared. It also fostered a spirit of competition among states and municipalities (TPE, 2018^[32]). For example, it is common that state schools and municipal schools of the same city adopt different school calendars, so that classes do not start on the same dates and that vacation periods do not match. Another noticeable difficulty is transportation: either there are two separated transportation services in the same city, which proves to be an inefficient way to allocate resources, especially in small cities, or municipalities have to bear the financial burden of providing transportation services for both municipal and state schools (Diniz, 2012^[33]). The intervention of the federal state was necessary to alleviate this problem by assuming the costs of school transportation.

The three levels of government operate under a constitutionally mandated “collaboration regime”, in which education is a shared and concurrent competency (art. 211 of the Constitution) (Dourado L. F., 2013^[34]).

This regime, however, fails to ensure a clear and detailed distribution of competences (TPE, 2018^[32]), and the situation persists where municipalities tend to have high levels of responsibility but low levels of own-source revenues and little control over the allocation of transferred resources (Diniz, 2012^[33]).

Regarding the distribution of functions, the federal government has at least three main functions related to co-ordination of education policies: legislative; planning and evaluation; and redistributive and steering (TPE, 2018^[32]), as per article 8 of the Law of Directives and Bases of National Education (Law n° 9.394/1996). Nonetheless, the competency to legislate about education is concurrent among the three levels of government, each at their sphere of action (art. 24, IX of the Constitution).

The legislative function of the federal government refers to enacting laws and regulations, for instance the Law of Directives and Bases of National Education in 1996 and the Law of the National Education Plan in 2014, just to cite a few landmark ones. According to article 22 of the Constitution, it is the exclusive responsibility of the federal government to enact the guidelines and principles of national education (Dourado L. F., 2013^[34]). The federal government also edits deliberations and resolutions through collegiate bodies such as the National Education Council (CNE). It is in charge of designing country-wide programmes, e.g. the programme of the National Common Curricular Basis (BNCC) and the National Programme of School Meals (PNAE), among many others.

The planning and evaluation functions of the federal government comprise editing plans, for instance the National Education Plan (PNE), and managing the national system of information and evaluation. The federal government compiles information about school functioning and budgeting, as well as students' performance. Among the standardised evaluations regularly applied, the Basic Education Evaluation System (SAEB) was introduced as of 2019 to replace the Aneb and Anresc system (ANA), also known as Prova Brasil. Departing from the results of these two tests, and combining them with students' approval rates, the government has developed an index called Basic Education Development Index (IDEB).

Lastly, the redistributive and steering function of the federal government involves providing technical and financial assistance to local governments. The federal government does so mainly through programmes of direct financial support to schools, such as the National Programme of School Meals (PNAE), the National Programme to Support School Transportation (PNATE) and the Direct Money at School Programme (PDDE). The purpose of the latter programme is to provide financial assistance to public schools with the aim of improving physical and pedagogical infrastructure and management practices (Diniz, 2012^[33]).

At the subnational level, states and municipalities are in charge of developing and enacting their own laws and plans, including the budget and the local education plans. As will be discussed in the sections below, subnational governments are obliged by a somewhat rigid financing structure, with constitutionally-mandated minimum levels of investment. When it comes to planning, because the federal government provides the general framework upon which local education systems can function, local plans tend to replicate the principles and objectives enacted by the federal government. Still, they often adopt their own action plans and set their own targets, meaning that, when it comes to implementation, they have to be more action-oriented and proactive. Subnational governments are free to develop their own evaluation systems, and many of them have done so, but the overall trend is to assist the execution of nationally-designed evaluation systems, and in exchange to receive detailed data, disaggregated at school level.

Dimension 2: Funding responsibilities in the education sector

The Constitution mandates a minimum level of investment in education (art. 212 of Constitution and art. 69 of Law n° 9.394/1996). States and municipalities have to contribute at least 25% of all their tax revenues to the maintenance and development of education, including the ones coming from transfers, and the federal government, 18%. This minimum level of 25% for subnational governments includes own-source tax revenues and revenues that originate from transfers of the federal government (Tesouro Nacional, n.d.^[35]). The concept of “maintenance and development of education” is defined by Law (arts. 70 and 71

of Law n° 9.394/96). It comprises spending on teacher salaries, school operation costs, school transportation programmes, scholarships and educational materials. It does not include social assistance programmes, infrastructure works, subventions to philanthropic entities, or research conducted outside of the school system.

The mandatory minimum level of investment in education varies across regions. This standard is stricter than the minimum level of investment mandated in the Constitution, as the reference is the cost to deliver quality education to every student. Taking the index Cost Pupil Quality (CAQ) as a parameter, it is estimated that, in 2019, 43% of the 5 570 municipalities and five states (Minas Gerais, Paráiba, Maranhão, Pará e Amazonas) invested less than the satisfactory minimum to promote quality education (TPE, 2018^[32]). The mandatory minimum level of investment varies across regions, which have large disparities in terms of tax revenue. As a result, if this was the only financing rule in place, it is estimated that spending in the northeast region would amount to less than R\$ 100 per primary student per year in municipal schools, below the average spending of Bolivia and Nicaragua, whereas in the southeast region this spending could go up to BRL 1 500 per primary student per year, around the same levels of Korea and Singapore (Bruns, Evans and Luque, 2011^[28]). In addition, in some cases, funding for education and from the FUNDEB, may also be diverted to cover other types of expenditure. This is the case, for example, of the state of Sao Paulo where resources from the Fundeb have been used to pay retirement pensions in the state of Sao Paulo (OECD, 2020^[17]).

To address these regional imbalances, the federal government adopted two parallel courses of action. One was setting a minimum level of spending per student in primary education. The other was creating an equalisation fund, called Fund for the Development of Primary Education and Appreciation of Teachers (FUNDEF), later transformed in 2007 into the Fund for the Development of Primary Education and Appreciation of Teachers (FUNDEB).

Another important source of revenues for education is the educational allowance (*Salário-educação*). It is a social contribution extracted from 2.5% of companies' monthly payroll. It was created in 1964 and since then has undergone several reforms. Today, as set in the Law n° 10.832/2003, 10% of the net revenue of the educational allowance goes to the National Fund for Education Development (FNDE), and 90% is automatically distributed among the three entities, in the proportion of 1/3 to the federal government and 2/3 to state and municipal governments. The 2/3 is shared according to enrolment numbers, with the objective of financing education programmes, projects and actions (art. 212, §6° of the Constitution).

In addition, states and municipalities receive legal transfers from the federal government, in virtue of universal distribution programme (Tanno, 2017^[36]). The only criterion for distribution is the number of students enrolled in each level of schooling. It is not associated with the entity's budget nor with any equalisation mechanism. Moreover, no counterpart is demanded (Diniz, 2012^[33]). The programmes are the National Programme of School Meals (PNAE), the National Programme to Support School Transportation (PNATE), the Direct Money at School Programme (PDDE) and the National Programme of Textbooks (PNLD).

Table 3.3 summarises the funding structure of education in Brazil, per type of funding mechanism and per level of government. The structure has not suffered substantial alterations since 2010.

Table 3.3. Funding structure of basic education, per level of government (2010)

Revenue sources	Federal government	State governments	Municipal governments
Budget revenue	<ul style="list-style-type: none"> • Ordinary budget • 18% of tax revenues to MDE 	<ul style="list-style-type: none"> • 25% of tax revenues to MDE • FUNDEB (sub-funding) 	<ul style="list-style-type: none"> • 25% of tax revenues to MDE • FUNDEB (sub-funding)
Social contributions	<ul style="list-style-type: none"> • 1/3 of the Educational Allowance (Salário-educac�o) • Net profit contribution • Social security contribution • Forecasted gross revenue 	<ul style="list-style-type: none"> • 2/3 of the Educational Allowance (Sal�rio-educac�o) 	
Mixed / Transfers	<ul style="list-style-type: none"> • Poverty eradication fund (FECP) 	<ul style="list-style-type: none"> • Federal quote of the Educational Allowance • Federal budget • Federal quota and other FNDE sources of investments of the Educational Allowance 	<ul style="list-style-type: none"> • Federal quote of the Educational Allowance • State quote of the Educational Allowance • Federal budget • State budget • Federal quota and other FNDE sources of investments of the Educational Allowance
Other revenue	<ul style="list-style-type: none"> • Credit operations • Net revenue of federal lottery • Revenue of autonomous bodies • Federal quota and other FNDE sources of investments of the Educational Allowance • Own-source revenues • Miscellaneous 	<ul style="list-style-type: none"> • Own-source revenues • Credit operations • Miscellaneous 	<ul style="list-style-type: none"> • Own-source revenues • Credit operations • Miscellaneous

Note: MDE refers to "Maintenance and Development of Education", FNDE stands for "National Fund for Education Development" and FUNDEB is the National Fund for the Development of Basic Education.

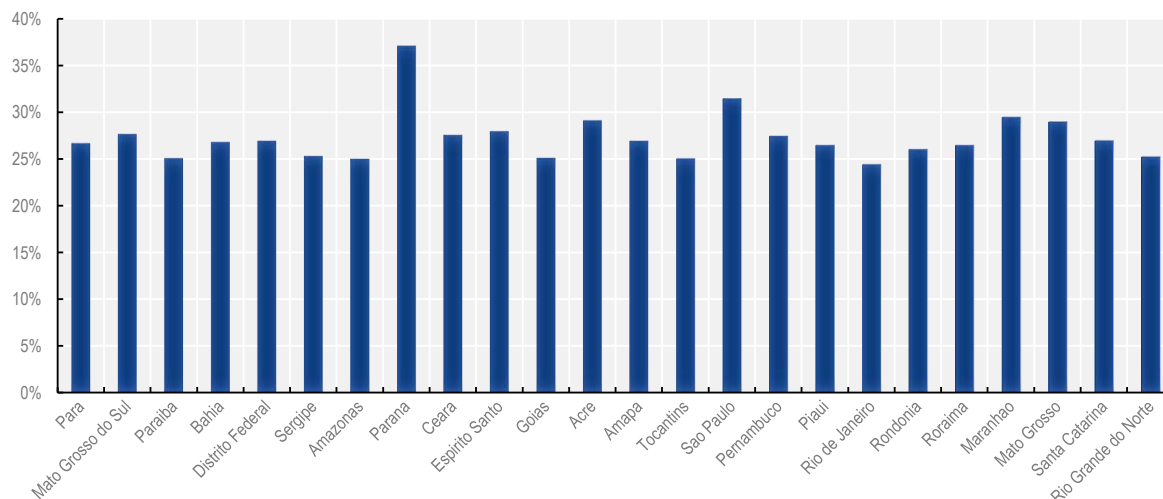
Source: (Castro, M. H. G., 2010^[31]).

There is little room for variation across subnational governments

This relatively fixed funding structure in the education sector in Brazil leaves little room for subnational governments to act on their revenue streams. There are, however, examples of subnational governments adopting differentiated approaches, for instance by spending above the constitutional minimum or by altering their own taxes, to collect more revenues for education.

Spending levels above the minimum level is fairly common among subnational governments in Brazil. In 2017, all states spent above the minimum of 25% (Figure 3.4). The level of spending does not relate to regional inequalities, though. As it reflects a percentage of the budget, and since the budget of richer states is higher than the one of poorer states, states with similar percentages would actually have spent disparate amounts of resources on education. The graph below shows the percentage of education expenditure in the year 2017 at the state level, using data collected by the Ministry of Education – FNDE via the system SIOPE.

Figure 3.4. Share of government spending in education coming from earmarked revenues, per state (2017)



Source: FNDE, 2017.

There are also cases of poor municipalities spending significantly more on education, and doing so efficiently, which translates into higher student performance, in comparison to municipalities with similar income levels. Measuring the efficiency of public spending on education in 57 municipalities in the state of Alagoas, Wilbert and D'Abreu, a recent research found that municipalities with low Gross Domestic Product (GDP) per capita and low value spent per student were the most efficient. This might reflect that the amount of investment does not necessarily affect the quality of education (Matias et al., 2018^[37]). In these same lines, analysing municipalities of the state of São Paulo, higher spending did not translate into better educational performance when it was not associated with an increase in the efficiency of spending. On the other hand, a study of the 26 state capitals – hence of large cities – found no significant relationship between efficiency in spending and better performance in primary education (Matias et al., 2018^[37]).

Subnational governments may also channel additional revenue to education by altering the calculation and collection formula of a given tax, and combine it with a distribution mechanism. The state of Ceará has adopted such a strategy. The state established that 72% of revenues collected from the Value-Added Tax (ICMS) would have to be spent on education. The state did not augment the tax rate, but simply conditioned this percentage of mandatory transfers to municipalities, resorting to the Index of Quality of Education (IQE) as a reference (Codes, A, 2018^[38]). This policy has enabled small municipalities in the state of Ceará with a good record of educational performance to receive more transfers. For some of these municipalities, the share of ICMS transfers has even surpassed the one of FUNDEB transfers, since these are based on enrolment numbers (Codes, A, 2018^[38]). Some states are starting to follow this example of Ceará, for instance in the state of São Paulo where a law was proposed (Assembleia legislativa do Estado do São Paulo, n.d.^[39]).

A low spending efficiency in the education sector

Despite the high share of public spending with respect to GDP in education in Brazil, this spending does not directly translate into better educational results. While compared to OECD countries, Brazil spends a relatively high proportion of national wealth, although the country's comparatively low GDP per capita and young population mean that this translates into comparatively low spending per student. Brazil has performed poorly at the PISA evaluation in the past years. The country spends around the same than

Mexico and more than Turkey and Thailand on education, yet its student performance results are worse (Oliveira et al., 2015^[40]).

This can be explained by the poor efficiency of resource allocation, which has a lower impact than the amount spent (Oliveira et al., 2015^[40]); (Glewwe et al., 2013^[41]); (Hyman, 2017^[42]). For sure, a certain standard of investment is fundamental: Brazil has seen an important progress in enrolment rates and educational attainment levels since the early 1990s precisely because the amount of resources invested in education increased significantly during this period (Bruns, Evans and Luque, 2011^[28]). Yet making progress from there means spending better, not simply adding more resources (Oliveira et al., 2015^[40]). It is estimated that more efficient spending could reduce costs at the municipal level from 3% to 30%, depending on the level of efficiency reached (Moreira, 2017^[43]).

The allocation of spending across education levels is considered as one of the key factors that hinder better results at the current level of education spending in Brazil (Bruns, Evans and Luque, 2011^[28]), along with persistent high repetition rates and high costs per graduate; rising teacher costs; little cost-effectiveness research; and corruption and mismanagement of education funds. Indeed, while every OECD country spends more per student on tertiary education than at the primary level – on average, twice as much – the ratio in Brazil is extreme: almost six times as much. The issue is not the share of GDP Brazil devotes to tertiary education, as 0.75% is well below the OECD average of 1.5%. The issue is the very small number of students in public higher education relative to spending.

Dimension 3: Co-ordination mechanisms in the education sector

The collaboration regime foreseen in the Brazilian Constitution conveys a decentralised and complex system of allocation of responsibilities in the education sector. Yet, there are very few institutional mechanisms to induce or command systematic and solid collaboration among the three levels of government in this sector (Furtado and Soares, 2018^[44]). Indeed, the collaboration regime, even if constitutionally established, has not yet been regulated by specific laws. A National Education System (SNE), as foreseen in the Law of the National Education Plan (art. 13 of Law nº 13.005/2014), could promote such mechanisms and create others. The SNE has however remained on the policy agenda for several years, without being effectively implemented. According to researchers, advocacy groups and teachers' unions, the creation of the SNE could clarify responsibilities, improve co-operation and strengthen the federal roles of social redistribution and technical assistance (Dourado L. F., 2013^[34]) (TPE, 2018^[32]).

Box 3.5. Towards a National Education System

The creation of a National Education System has been on the policy agenda for some years now. It bears the promise of fulfilling the principle of the “collaboration regime” (Dourado L. F., 2013^[34]) which has not yet been regulated. The proposals' document for the 2014 National Education Conference (Conferência Nacional da Educação – CONAE), elaborated by the National Education Forum (FNE), had argued that the creation of a National System would contribute to achieving the following objectives:

- To promote common educational guidelines throughout the national territory, with the perspective of overcoming regional inequalities and promoting the right to quality education;
- To define and guarantee common educational purposes, guidelines and strategies, without prejudice to the specificities of each system;
- To reinforce the federal government's role in promoting articulation, standardisation, co-ordination and regulation of public and private national education.

Later in 2014, with the Law of the National Education Plan (Law nº 13.005/2014), the creation of such a system became mandatory. Article 13 of the Law states that:

Art. 13. The public power must establish, in a specific law, two years after the publication of this Law, the National Education System, responsible for the articulation between the education systems, in a collaborative regime, for the effectiveness of the guidelines, goals and strategies of the National Education Plan.

Given that the National Education System would have to be created by a specific national law, advocacy groups and non-governmental organisations, together with congressmen and senators whose platform of work is education, have been promoting this agenda in the National Congress. The Complementary Law Project nº 25, which foresees the creation of the SNE, was proposed in February of 2019 at the Chamber of Deputies. However, it awaits appreciation by the Education Commission since March of that same year. Another Law Project enacting the SNE was proposed in 2019, this time at the Federal Senate. The Complementary Law Project nº 235, proposed in October of 2019, awaits appreciation by the Education Commission since December of that year.

A specific law of the National Education System, according to the non-governmental organisation Todos pela Educação (2018) and the National Campaign for the Right to Education, should bring the following changes:

- Establish the competences and duties of each entity more clearly, with emphasis on strengthening the federal government's role of co-ordinating national education, while diminishing its role as executor of policies.
- Establish national benchmarks for the provision of quality basic education, through the adoption of the index of Cost Pupil Quality (CAQ), and with the support of a tripartite council or body.
- Assign to each state government the role of overseeing basic education policies in their territories, by establishing clear criteria for issues such as: enrolment, curriculum, evaluation, teaching materials, selection and training of teachers.
- Create mechanisms to foster collaborative practices between municipalities, among which inter-municipal consortia and the institutionalisation of Education Development Arrangements (ADE).
- Give special attention to the North and Northeast regions: in light of the Brazilian federative pact, the SNE must guarantee the necessary conditions for quality and equity in educational care, especially at the basic level, seeking to overcome historical regional inequalities.

Source: Adapted from: (Dourado L. F., 2013^[34]; National Education Conference (CONAE), 2013^[45]; TPE, 2018^[32]; Campanha Nacional pelo Direito à Educação, n.d.^[46]; Camara dos Deputados, n.d.^[47]).

Historically, the Ministry of Education (MEC) has enacted mostly top-down policies, based on general assumptions about the needs and deficiencies of subnational governments. This strategy has paid off in the 1990s, resulting in an increase in school attendance and years of schooling. As the policy focus is shifting from access to education to quality of education, the federal government must face the challenge of addressing the remaining gap in income equality and educational achievement across regions. Top-down, centralised policies might not be able to account for the heterogeneity of Brazilian cities and states. The National Education Council (CNE, 2012^[48]) has stressed that, despite the constitutional design of a non-hierarchical federalism, the federal government is still anchored in a vertical and centralised mode of operation. It is thus urgent to invest in territorial policies and in collaborative approaches to policy-making (CNE, 2012^[48]), from three perspectives: co-ordination between the Union and municipalities; states and municipalities; and horizontal co-ordination.

Co-ordination between the federal government and municipalities

Given its steering and planning functions in education policy, the federal government ought to provide a framework for co-operation. In the institutional arena, this steering role was reflected in the Secretary of Articulation of the Educational System (SASE) of the Ministry of Education (MEC). The Secretary had, among others, the attributions of contributing to the creation of a national education system; fostering cooperation between entities; and supporting subnational governments in the elaboration, implementation and evaluation of their Education Plans (article 30 of Decree n° 7.690/2012). Although it had considered it as a positive institutional measure towards a more effective and solid collaboration regime (CNE, 2012^[48]), it was extinct in 2016.

Moreover, the federal government has created and strengthened several participation and agreement spheres, such as conferences, forums, collegiate entities and deliberative councils, among others. These mechanisms often include subnational governments, as well as the participation of the civil society, unions and universities. Some of these joint bodies have decision-making powers, while others function as permanent dialogue instances that agree on common priorities and establish guidelines. They produce documents that form the basis of new policies, such as the proposals of the National Education Conference (CONAE). Table 2 provides examples of such arenas of participation and consensus-building.

Table 3.4. Participatory spheres in education policy-making

Type	Function	Example
National conferences	Civil society participation Setting broad national priorities Agenda setting	National Conference on Basic Education (CONEB) National Conference on Education (CONAE) National Conference on Professional and Technological Education National Conference on Indigenous School Education
Participatory forums	Participatory strategic planning Agenda setting Alignment of priorities Uniformisation of rules	National Education Forum (FNE) National Forum of Education Councils Permanent State Forums to Support Teacher Training National Forum on Higher Education State Commissions on Literacy and Youth and Adult Education
Collegiate bodies of educational managers	Agenda setting Information sharing Exchange of good practices Dialogue with federal government	National Council of State Education Secretaries (CONSED) National Union of Municipal Education Managers (UNDIME) National Forum of State Education Councils (FNCE) National Union of Municipal Councils of Education (UNCME)
Intergovernmental commissions	Monitoring and evaluation Setting funding priorities	Intergovernmental Commission on Financing for Quality Basic Education Social Monitoring and Control Councils (CACS FUNDEB)

Source: (CNE, 2012^[48]).

A key collaboration mechanism is the Co-ordinated Action Plan (Plano de Ações Articuladas – PAR), a strategic participatory planning tool (Femandes and Nogueira, 2018^[49]). Departing from a diagnostic of the educational scenario, municipalities and states develop a 4-year plan, with strategies to address the identified challenges. Through a participatory process based on questionnaires and joint meetings, municipalities and states identify their greatest needs and set actions to address them. Once the PAR is formulated, the subnational entity presents it to the Ministry of Education (MEC), with whom it signs a letter of agreement. Departing from the actions proposed in the PAR, the Ministry of Education may provide adequate technical and financial assistance. This is critical because the federal government has typically played a timid role in providing technical assistance (TPE, 2018^[32]).

The PAR set a new standard of relationship between the federal government and the other entities. At the beginning, some states and municipalities did not know what to demand, and the federal government, in turn, did not know what to offer (Femandes and Nogueira, 2018^[49]). Most states and municipalities elaborate their PAR at every 4-year cycle since 2007, when it was created. Although not mandatory,

according to the Resolution CD/FNDE nº 14/2012, the elaboration of such action plans is a condition for obtaining technical and financial assistance from MEC. In other words, the PAR is a prerequisite for subnational entities to receive technical and financial assistance from the federal government, which will be paid with resources of the National Fund for Education Development (FNDE). Thus, the strategic planning process of PAR has allowed for qualification of both demand and supply of educational programmes.

Co-ordination between states and municipalities

The relationship between states and municipalities in Brazil regarding education differs from state to state. In some states, more than the institutional set-up in itself, the definition of rules and mechanisms for collaboration between the entities often depends on the negotiating capacity of educational managers (Fernandes and Nogueira, 2018^[49]). Overall, the co-ordination mechanisms between states and municipalities can be divided into five categories (Table 3.5). Departing from this typology, different policies have been identified. They range from joint programmes of school enrolment to continuous training given to teachers and local civil servants.

Table 3.5. Categories of co-ordination between states and municipalities

Category	Description
State co-ordination	<ul style="list-style-type: none"> • Institutionalised cooperation, most often vertical • The state strongly induces cooperation • Involves redistribution of financial, material and human resources
Joint programmes	<ul style="list-style-type: none"> • Institutionalised cooperation • Even so, cooperation is the result of ongoing negotiation, which leads to a variation in the degree and object of institutionalisation • Involves redistribution of material and human resources
Conflict resolution	<ul style="list-style-type: none"> • Based on negotiation led in institutional arenas • Does not involve redistribution of resources
Joint actions	<ul style="list-style-type: none"> • Cooperation, but relatively weak, not institutionalised and, in some cases, not intentional
Independent policies	<ul style="list-style-type: none"> • Little or no cooperation • May lead to conflict between entities

Source: (Segatto, 2015^[50]).

Most state governments have developed transportation and school meal programmes for municipalities. Some states have created joint programmes regarding school calendar, enrolment systems and human capital management, such as Goiás and Acre (Segatto, 2015^[50]). In others, it is more about assistance, guidance and information sharing.

In states such as Paraíba, state and municipalities have independent policies, with no significant degree of collaboration (Abrucio, L. F, 2017^[51]). In the state of Pará the relationship is best characterised as conflictive: there are no joint programmes, negotiation instances or dialogue channels between the State Secretary of Education and the Municipal Secretary of Education (Segatto, 2015^[50]).

Box 6 presents the trajectory, operation and results of the collaboration regime between the state of Ceará and its 184 municipalities, focusing on the Literacy at the Right Age Programme (PAIC), internationally praised as successful (Abrucio, Pereira and Seggato, 2017^[52]; Carnoy et al., 2017^[27]).

Box 3.6. State co-ordination: Ceará's Literacy at the Right Age Programme

The Literacy at the Right Age Programme (PAIC) was launched in 2007 and institutionalised through the Law nº 14.026/2007, with the aim of ensuring that all children were literate by the age of seven. PAIC focuses on improving municipal and school management, directing them to children's learning. Since the programme's inception, the Ceará's Secretary of Education (SEDUC) emphasised that partisan political issues should not interfere with education and has not treated allied mayors or state government opponents differently.

The PAIC was joined by all 184 municipalities in Ceará, through a cooperation agreement. By joining PAIC, the municipalities committed themselves to structuring teams in the Municipal Education Departments to implement the programme.

SEDUC itself underwent an organisational restructuring. The Co-ordination of Cooperation with Municipalities (COPEM) was created, with the objective of establishing a cooperation system to define policies and structure actions to raise the quality of early childhood education. In addition, an intermediary level between states and municipalities was enacted, composed of Regional Education Development Co-ordinators (CREDEs).

The programme has been reformulated over the years, undergoing incremental adjustments and changes. In 2008, financial support to municipalities was initiated through scholarships for the civil servants responsible for implementing the programme, to complement their salary.

In 2009, a financial induction mechanism to make literacy a priority was enacted, by changing the quota of the Value Added Tax (ICMS) redistributed to municipalities. Out of the 25% share that municipalities receive, 18% became directed to education, with basis on the Index of Quality Education (IQE). The IQE is calculated according to proficiency levels so that municipalities with the highest number of children at the appropriate level are valued, whereas those with children at the lowest levels of proficiency are penalised. The calculation also considers the percentage of students who participated in the assessments and the improvement rate over the previous year.

Another mechanism of financial induction adopted in Ceará is the Grade-A School Award, instituted in 2009 by Law nº 14.371. The award is destined to the 150 public schools that obtain the best literacy results measured by the School Performance Index - Literacy. The winning school first receives 75% of the total, but the remaining 25% is received upon the celebration of a technical and pedagogical cooperation agreement with one of the 150 schools with the lowest results.

The success of this policy depended on a well-rounded governance framework. The leadership was capable of continuous learning and changing, and of articulating and negotiating with other governmental and non-governmental actors to seek support. Collaboration was built around clear projects, defined in a dialogical way. Short, medium, and long-term goals were put in place. Adequate structures and incentives were set to municipalities, with a virtuous equilibrium between cooperation and competition. For teaching, a tripod was set up, based on the combination of training, adequate pedagogical material and monitoring and evaluation, in a feedback loop.

Source: (Abrucio, Pereira and Seggato, 2017^[52]).

Horizontal co-ordination

There are very few institutional spheres for horizontal co-ordination amongst states or municipalities in Brazil. Indeed, cooperation between municipalities is reported to be low (Abrucio, L. F, 2017^[51]). The most relevant mechanism is inter-municipal consortia, notably the Education Development Arrangements (ADEs) (CNE, 2012^[53]). These arrangements hold great innovative potential to solving complex and multifaceted problems, while their magnitude remains small.

The National Council of Education defines ADE as a horizontal form of territorial collaboration aimed at ensuring quality education (CNE, 2012^[53]). It is a networking model in which municipalities with geographical proximity and similar socioeconomic characteristics will exchange experiences and jointly address challenges in the field of education (Abrucio, L. F, 2017^[51]). It is typically formed by municipal governments, but non-governmental organisations and non-for-profit private entities may participate, too (CNE, 2012^[53]).

One of the objectives of ADEs is to develop a shared methodology among municipalities to increase the efficiency of actions and to measure the results of these actions with the aid of indicators (CNE, 2012^[53]). It informs a model of evidence-based decision-making, departing from a common understanding of a shared local context.

In this sense, ADEs can adopt many different courses of action. They may comprise, for instance, the development of local education plans and local curricula. They may focus on training teachers and civil servants and establishing an arrangement of mutual transfers of civil servants between municipalities. A joint evaluation system may be put in place, and management styles might be assessed and improved. Joint programmes of service provision may be enacted, such as one concerning school transportation.

Between 2009 and 2017, 15 different ADEs were developed across the country (Abrucio, L. F, 2017^[51]). Some remain active, while others have been deactivated. The ADEs of Chapada Diamantina, Florianópolis metropolitan region, Carajás Railroad and São Paulo Northwest are regarded by the specialised literature as successful (Abrucio, L. F, 2017^[51]). In all of them, comprehensive assessments were conducted, culminating with the elaboration of joint action plans, and a collaborative network of educational management has been solidified. In some of them, non-state actors are partners, and they contribute with technical assistance and funding. Table 3.6 inventories the experience of these ADEs.

Table 3.6. Examples of Education Development Arrangements in Brazil

ADE	Description
Instituto Chapada (Bahia)	<ul style="list-style-type: none"> • Public letter of engagement signed by 12 municipalities in 2000 • Instituto Chapada is a partner NGO since the inception in 1997 • Started with diagnostic of educational challenges • Joint elaboration of action plan and goal-setting • Ongoing partnerships with private actors and universities • Better educational results and stronger network of qualified teachers
Carajás Railroad (Maranhão)	<ul style="list-style-type: none"> • Implemented in 2009 with 15 municipalities; 6 remain today • Financial and technical support provided by Fundação Vale • Pedagogical management and training of school principals • Closer and more cooperative relations between technical, management and teaching teams
São Paulo Northwest (São Paulo)	<ul style="list-style-type: none"> • Launched in 2009 with 17 municipalities; 53 today • Comprehensive, data-based assessment and evaluation • Co-ordinated by the State Education Secretary (electoral cycle) • Operation costs shared by municipalities; no external funding • Organisation of “Education for All” forums and conferences
Great Florianópolis (Santa Catarina)	<ul style="list-style-type: none"> • Conceptualised by the NGO Instituto Positivo in 2014 • Cooperation agreement signed in 2015 between Instituto Positivo and the 22 municipalities of the Great Florianópolis Association of Municipalities (Granfpolis) • Management by results: short-, medium- and long-term goals were set and are monthly monitored, with the aid of indicators • In 2017, gave birth to Association of Municipal Education Officers

Source: (Abrucio, L. F, 2017^[51]).

Since the creation of the ADEs, education results have improved in the participating municipalities. In the 12 municipalities of the ADE Chapada Diamantina, the Basic Education Development Index (IDEB) has doubled from 2005 to 2015 (Abrucio, L. F, 2017^[51]). These municipalities had, as of then, the best IDEB of the whole state of Bahia. Out of the 20 municipalities of the ADE Carajás Railroad, 10 of them saw an increase of at least one point in the IDEB index between 2007 and 2015, on a scale that ranges from 0 to 10 (Abrucio, L. F, 2017^[51]).

The main challenges faced by ADEs concern their long-term financial sustainability, especially in the poorer regions, the high costs of hiring and training qualified technical teams, the lack of engagement from civil society and weak oversight and support from the federal government (Abrucio, L. F, 2017^[51]).

In expanding the model of ADEs, there are other actors that could be more strategically involved (Abrucio, L. F, 2017^[51]). The Associations of Municipalities that exist in every state could advocate the interests of members in the creation of such collaborative arrangements and negotiate support from the state and federal levels. Non-for-profit foundations and NGOs of the sector of education are building a broad platform to advocate for policy reforms, promote good practices and support local managers. Universities, especially the ones located in regional hubs outside capital cities, could provide technical advice and develop evaluation methodologies for municipalities.

Chiefs of State Education Secretaries and Municipal Education Secretaries face common challenges and demands. With the goal of reuniting these chiefs, collegiate bodies have been created, such as the National Council of State Education Secretaries (CONSED) and the National Union of Municipal Education Managers (UNDIME). They function as spheres to share information and good practices and to align policy priorities. Through these forums or councils, states or municipalities can speak to the federal government as a unified voice (CNE, 2012^[48]). As a consequence, they may have a stronger standing on what should be endorsed by the federal government.

Lastly, very few inter-school mechanisms of co-ordination have been observed. There is room for schools of different municipalities within the same state to adopt practices of peer learning, joint decision-making or joint resource allocation. Taking state policies as a departure point, they could improve the quality and efficiency of school management, by choosing to face similar problems together.

Some states have stepped in to make that collaboration amongst municipalities happen. In São Paulo, the 16 Regional Education Boards (DREs) act as an intermediate level between the state office and the municipalities (Barros, 2018^[54]). They promote training programmes that gather teachers and administrators of the same educational region. In so doing, they facilitate information sharing and alignment of management and pedagogical practices. A common identity could be enhanced among municipal schools, promoting political alignment. Lastly, DREs could contribute to the development of an evidence-based management culture in municipal schools (Barros, 2018^[54]).

Dimension 4: Capacities of subnational governments in the education sector

Capacity-building and technical assistance

States play a key role in strengthening the capacities of municipal administrations. They are closer to municipalities than the federal government and they are responsible for offering a sound framework of laws and programmes upon which municipalities can structure their education policy. They may step in to develop a joint school calendar, a joint registration system and even a joint curricular structure with municipalities. Moreover, states may offer technical assistance programmes to support the development of planning tools and management systems in municipalities.

Technical assistance programmes are an integral part of co-ordination mechanisms put in place between the federal, state and municipal governments (Table 3.7). These programmes often aim to support local governments in the design of local education plans, curricula and management systems. This is the case for instance in Ceará, Tocantins and Minas Gerais (Segatto, 2015^[50]). Training programmes for municipal teachers and civil servants of the local education offices also exist in Piauí and Mato Grosso, too, besides the already cited Ceará, Tocantins and Minas Gerais. Nonetheless, in other states, this advisory role is less pronounced, as in Bahia and Sergipe (Abrucio, L. F, 2017^[51]).

Table 3.7. Capacity-building programmes for municipalities

Programme	State
Technical assistance for the elaboration of the PAR and for adherence to federal programmes	Acre, Bahia, Goiás, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Pernambuco, Piauí and Sergipe
Exchange of public servants and assignment of use of public buildings	Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Pernambuco and Piauí
Continuous training of teachers and school administration officers	Acre, Goiás, Mato Grosso, Mato Grosso do Sul, Piauí and Tocantins
Evaluation of student performance and school results	Acre, Goiás, Minas Gerais, Pernambuco, Piauí and Tocantins
Support to Municipal Education Councils	Pernambuco and Sergipe
Joint registration system	Acre, Goiás and Tocantins
Joint school calendar	Goiás, Mato Grosso and Mato Grosso do Sul
Common curricular structure	Pernambuco
Joint youth and adult literacy programme	Acre, Bahia, Mato Grosso do Sul, Pernambuco and Piauí

Source: (Segatto, 2015^[50]).

While the federal governments have typically played a rather timid role in providing technical assistance to municipalities (TPE, 2018^[32]), the Co-ordinated Action Plan (Plano de Ações Articuladas – PAR) have led the way towards more co-operation in this field. Based on these plans, the Ministry of Education may provide adequate technical and financial assistance. States may as well resort to their evaluation systems to assess the performance of students in municipal schools. The adoption or not of these programmes reflects the level of co-ordination between states and municipalities, which may range from conflict and independent policies to joint programmes and close cooperation.

Horizontal co-ordination may also spur capacity-building. Education Development Arrangements (ADE) in Brazil are organised based on a networking model gathering a large number of municipalities. This allows for the exchange of experiences and providing peer-to-peer advice to other municipality in the field of education. They may comprise, for instance, the development of local education plans and local curricula. They may focus on training teachers and civil servants and establishing an arrangement of mutual transfers of civil servants between municipalities.

Capacity-building also takes place to strengthen municipal capacities in performance evaluation. The National Institute for Educational Studies and Research (INEP) provides technical assistance for subnational governments to create their own evaluation programmes. There are great advantages in the development of local assessment programmes: data breakdown at school level, collection of information of special interest and overall a deeper understanding of their specific context (Castro, 2002^[55]). State schools in Ceará, for instance, use the results of mid-year standardised testing to adjust course content and thus increase student performance levels by the end of the school year (Codes, A, 2018^[38]).

Strengthening capacities of education stakeholders

At the local level, the main challenges concern higher salaries, better working conditions, professionalisation of the school administration, with improved human resources management practices and regular all-staff meetings, and continuous training programmes designed to improve pedagogical methodologies (TPE, 2018^[32]); (Matijascic, 2017^[56]); (Bruns, Evans and Luque, 2011^[28]). Raising teacher quality is one of the main challenges for Brazilian education (Bruns, Evans and Luque, 2011^[28]).

Raising teacher quality is one of the main challenges for Brazilian education (Bruns, Evans and Luque, 2011^[28]). The career plan of the profession is not well-structured, the salaries are low (to compensate for the low salaries, 37% of teachers in Brazil work in two or more schools), many teachers are not specialised or do not work in their field of specialisation, and human resources management practices can be considered weak (TPE, 2018^[32]). In all, the attractiveness of the teaching profession is low. Brazilian teachers are recruited from the bottom third of high school students, whereas in Singapore, Korea and Finland they come from the top third (Bruns, Evans and Luque, 2011^[28]). Although Bruns and colleagues (2011) mention the rising costs of teacher salaries, more recent evidence shows that the average salary of teachers in Brazil is low (Matijascic, 2017^[56]). It lies below the average of university-educated professionals and there are important regional variations. In order to compensate for the low salaries, 37% of teachers in Brazil work in two or more schools, which in the end translates into a higher income level (TPE, 2018^[32]). As a result, the average income of teachers lies above the national average. This is not very telling, since the average income of workers in Brazil is low, due in part to the high levels of informality of the economy and the low percentage of university-educated workers (Matijascic, 2017^[56]).

Moreover, there is evidence showing that the working conditions and the career path do not reflect an adequate environment for teachers' development. Basic matters of school infrastructure, security and psychological assistance are not provided. The career path rewards more those who get higher degrees than those who specialise in teaching methods, and time spent in the classroom does not award wage bonuses (Bruns, Evans and Luque, 2011^[28]).

The capacity level of school administrators has also been identified as a relevant factor, capable of explaining performance variations among schools with similar socioeconomic contexts. School

administration in Brazil is reported to be quite bureaucratic, overlooking pedagogical practices (TPE, 2018_[32]). Research shows that 74% of principals of municipal schools are allocated in reason of political affiliation only, and that just 36% of principals pay consideration to aspects related to students' learning (TPE, 2018_[32]).

In parallel, there is a lack of standardised hiring mechanisms for teachers across the subnational level; which reflects the decentralised educational system of the country. States and municipalities may conduct selection processes catered to their needs and conveniences. This also opens the door for arbitrary selection procedures, which mostly occur in small municipalities that may organise arbitrary selection procedures in which the best candidates is not selected. In many of them, selection is based on curriculum and interview, with no written exams. Aware of this challenge, the Ministry of Education (MEC) has mandated that every subnational entity establishes a formal recruiting process and a career plan for teachers (Bruns, Evans and Luque, 2011_[28]). This should be organised, transparent entry exams, based on subject matter mastery and pedagogic credentials. Career plans must align performance requirements with salary increases. Small municipalities can pool together in order to organise a single, more rigorous selection process, more effective in attracting better candidates. The Regional Education Boards (DREs) or the co-ordinating bodies of Education Development Arrangements (ADE), where these exist, can help in setting up these procedures.

Teaching career paths may be improved by creating more competitive tracks and by associating gains with performance goals. The state of São Paulo, for instance, has adopted the Teacher Promotion Exam (*Prova de Promoção*) to create a highly paid career track for the top teachers in the public career. The rewards for passing this difficult test of content mastery are high: entering a new salary track in which the top-level salary amounts to four times annual per capita GDP, what would place teachers in the top 10% of professional salaries nationwide (Bruns, Evans and Luque, 2011_[28]).

Recently, the federal government enacted two programmes with the goal of fostering the link between university students and the teaching career path. The Teaching Initiation Grants Programme (Pibid) offers teaching scholarships to university students who commit to exercise teaching in the public network after graduation. The Pedagogical Residency Programme offers paid internships to university students, with the aim of consolidating the importance of classroom practice in teacher training

Some states have created wage bonus policies to increase the attractiveness of the teaching profession, e.g. in Amazonas, Ceará, Rio de Janeiro, Minas Gerais, São Paulo and Pernambuco (Box 6) (Furtado and Soares, 2018_[44]). These policies grant a wage bonus to teachers and sometimes to school administration officers. The bonus may relate to positive performance reviews, to the achievement of a certain grade in standardised exams or to students performance at the schools where they work. Research so far has found positive effects of wage bonus policies. In the states of São Paulo and Pernambuco, these policies had positive impacts on students' performance, as measured by the Basic Education Evaluation System (Saeb) scale and by Prova Brasil results (Furtado and Soares, 2018_[44]).

Box 3.7. Pernambuco's wage bonus policy

In 2009, Pernambuco launched an innovative pay for performance system that rewards school personnel for achieving their annual school improvement targets. All school personnel – not only teachers – of schools that achieve at least 50% of their targets receive a proportional bonus, up to a cap of 100%. Schools achieving less than 50% of their targets receive nothing, which functions as a strong incentive. In São Paulo, by comparison, every school receives some bonus.

In the first year of the program, 52% of schools achieved their targets, and the awards averaged 1.8 months of salary. In the second year, 79% of schools received the bonus, and the average award was 1.4 months of salary. This is a large incentive compared with other programmes internationally.

Research shows that the wage bonus programme is positively associated with higher results in the state evaluation system (Saepe) and in the Prova Brasil. However, the initial improvement in results induced by the programme did not remain constant over time. Once a given performance standard is reached, it is challenging for schools to sustain it. To address that, the state needs to design mechanisms to motivate school personnel and to assist schools that have consistently failed in reaching their targets.

Source: (Bruns, Evans and Luque, 2011^[28]; Furtado and Soares, 2018^[44]).

Dimension 5: Performance and evaluation in the education sector

The national system of monitoring and evaluation is essential to produce sound assessments and guide the formulation of policies towards equitable and quality education (Castro, 2002^[55]). Indeed, as important as the existence of monitoring and evaluation systems, is the use of the results and the feedback loop to improve policies.

With the aim of generating context-specific information and to reach a greater level of detail, most states have developed their own evaluation systems. Municipalities, in their turn, tend to resort to the data produced by the federal and state governments. They do not develop their own evaluation systems not only because it would be costly, but mainly because the available ones already provide information disaggregated at municipal and school levels and sometimes even per student. Furthermore, municipalities may prefer to allocate resources in qualitative assessments of their education system, through questionnaires, interviews and reports. This type of assessment is usually undertaken in the diagnostic phase of their planning processes, be it the local education plan or the Co-ordinated Action Plan (PAR) discussed above.

Performance and evaluation assessments at the national level

The National Institute for Educational Studies and Research (INEP) is a federal agency specialised in education statistics and assessment. INEP is responsible for the School Census and other major educational assessments at the national level. It also manages the systems that compile and provide data on educational expenditures, namely the Educational Public Budget Information System (SIOPE) and the Finances of Brazil system (FINBRA) (Hirata and Oliveira, 2017^[57]).

The School Census of basic education is carried out yearly and collects data to subsidise the planning and implementation of education policies at all levels of government. Public and private schools, together with state Secretaries of Education, assist INEP in conducting the Census. In return, each school receives a set of indicators, comprising the percentage of teachers with higher education, the age-grade gap, the average number of students per class, daily class hours, and promotion, repetition and drop-out rates

(Castro, 2002^[55]). In all, the information of the School Census enables education authorities to design and implement policies based on the main needs and demands of schools, as well as to monitor and evaluate the results of these policies.

The INEP is also responsible for the National Basic Education Assessment System (SAEB), which comprises several assessments, including the National Secondary Education Examination (ENEM), the Prova Brasil and the National Assessment of Literacy (ANA). In 2018, the Ministry of Education (MEC) unified the SAEB, the Prova Brasil and the ANA exams under the common appellation SAEB, but the content of each one remains the same as before.

SAEB assesses levels of student achievement and gathers information through questionnaires filled by students, teachers and school principals. This information includes socioeconomic data, students' study habits, teacher training and practice and school administration (Castro, 2002^[55]). Conducted every two years since 1995, it became a compulsory school-based system in 2005 (Hirata and Oliveira, 2017^[57]).

In addition to test scores, the Basic Education Development Index (IDEB) was created in 2007. The IDEB is calculated from students' performance measured by Prova Brasil, alongside with data on school passing and dropout rates. The index ranges from 0 to 10, allowing civil society and local governments to monitor, in simple terms, the performance of municipal and state schools.

ENEM was created to assess individuals – unlike SAEB, which was developed to compare different education systems. In 2009, the results of ENEM were adopted in the selection process of higher education institutions. ENEM is interdisciplinary, containing questions about all subjects taught at school, plus a written essay, whereas SAEB only evaluates learning on Mathematics and Portuguese.

Municipalities are called in to implement these assessments. Both public and private schools function as examination centres that apply the exams and then return the results to the federal government. This way, the INEP ensures the granularity of the system, while municipalities benefit from receiving the results disaggregated at school level.

State systems of evaluation and performance: the road ahead¹

Since the early 1990s, states have invested in the creation of their own evaluation systems. The pioneer states were Ceará, Minas Gerais and Mato Grosso do Sul. These early systems had their own scale of evaluation, not aligned with the SAEB scale, which had been created in 1990. As of 2000, Paraná, Rio de Janeiro and Espírito Santo had created their systems, too. Progressively, states continued investing and adapting their systems, with technical assistance provided by the INEP. As of 2016, 18 out of the 26 states had created their own evaluation systems, following the SAEB scale.

These systems assess the performance of students in upper primary education and in lower and upper secondary education, in the disciplines of mathematics and Portuguese. Some of them assess the results in Sciences and Humanities as well. In addition, 11 of them evaluate literacy levels of students at the age of learning. These evaluations generate transversal results at the student, classroom, school and municipal levels.

There are great advantages in the development of local assessment programmes. They allow data breakdown at school level, collection of information of special interest and overall a deeper understanding of their specific context (Castro, 2002^[55]). Furthermore, this process has fostered a multi-stakeholder debate about the right to education in states. State administrators, civil society and academia could better assess the factors that promote or hinder student performance. They were more consistently engaged in the design of innovative curricula, based on the deficiencies identified in the evaluations.

However, some challenges remain. The involvement of teachers in the analysis of results has been reported as weak. As those working directly in the classroom, teachers would have much to contribute to the analysis as well as learn from it. State schools in Ceará, for instance, use the results of mid-year

standardised testing to adjust course contents, with the goal of increasing student performance levels before the end of the school year (Codes, A, 2018^[38]). Even though a myriad of materials has been produced in order to facilitate the interpretation of results, these materials are not well-known by all the stakeholders involved. Lastly, and in relation to that, communication channels between those stakeholders could be strengthened.

Dimension 6: Territorial disparities in the education sector

Territorial disparities in the education sector are the most visible through the unequal availability and distribution of resources between municipalities, across and within states. To address these challenges, Brazil needs not so much to invest more in education, for the level of spending in relation to the GDP already lies above the OECD average, but to spend resources more efficiently (Oliveira et al., 2015^[40]; Moreira, 2017^[43]). This is why a sound multi-level governance framework that incorporates the territorial dimension in the elaboration and implementation of education policies is necessary. Acknowledging regional disparities is an important step towards better policy design and more efficient resource allocation. To overcome these disparities, the country has set up several equalisation systems.

The first equalisation system in Brazil was the Fund for the Development of Primary Education and Appreciation of Teachers (FUNDEF). This fund enabled a federally mandated system of redistribution within states, with a federally managed top fund (Bruns, Evans and Luque, 2011^[28]). The FUNDEF regime also established that 60% of resources must be spent on teacher salaries, and the other 40% on operation costs. The impacts of this measure in raising teacher salaries were positive: in the northeast and north regions, a 70% increase was estimated (Bruns, Evans and Luque, 2011^[28]).

In 2007, the federal government replaced the FUNDEF, which had a sunset clause, for the Fund for the Development of Basic Education and Appreciation of Teachers (FUNDEB). This enabled not only to give continuity to this policy, but also to expand it to the whole system of basic education, whereas before it concerned only primary schools. FUNDEB is ruled by Law n° 11.494/2007 and Decree n° 6.253/2007. States contribute to the fund with tax and transfer revenues, which are then shared across municipalities under an equalisation scheme, based on enrolment numbers (Santos et al., 2017^[58]). This way, many municipalities that before fell under the minimum level of spending could reach it.

Therefore, because differences in contribution among states are complemented by federal funds, FUNDEB plays a very important role in reducing regional inequalities. Moreover, it addresses intra-state inequalities, due to the mechanism of redistribution across municipalities of the same state. It is estimated that the difference between the lowest and the highest student spending per year would be 350% bigger had the FUNDEB not been implemented (Cruz et al., 2019^[59]).

There are, however, some elements showing that the FUNDEB' design hinders further redistributive effects (Diniz, 2012^[33]; Cruz et al., 2019^[59]). For instance, based on the design of the fund, smaller municipalities, which have proportionally fewer pupils, end up financing, in part, the so-called winning municipalities (Diniz, 2012^[33]). As a general rule, small municipalities are more significantly dependent on transfers from the federal government. Nonetheless, they still have to contribute to the fund, with the purpose of providing horizontal inter-municipal equalisation. Hence, when receiving the resources redistributed by FUNDEB, they end up being penalised (Diniz, 2012^[33]).

To address that challenge without changing the underlying logic of resources being proportional to enrolment numbers, research findings suggest attributing more weight to poor students in the equalisation formula (Cruz et al., 2019^[59]). That is, subnational governments would receive more funds not only proportionally to the size of their student population but also to the number of pupils with low socioeconomic status. This mechanism could compensate for social inequalities, at least partially.

Secondly, the parameter of student spending per year precludes considerations about the efficiency of spending. Several proposals have been made, including amendments to the Constitution, about

establishing the quality of education as a parameter to redistribute FUNDEB funds (Cruz et al., 2019^[59]). The adoption of an index of Cost Pupil Quality (CAQ) is foreseen in the Strategies 20.6 and 20.7 of the Law n° 13.005/2014.

The Cost Pupil Quality (CAQ) would operate as a reference of how much subnational governments would have to spend on each level of education per student in order to deliver quality education (Cruz et al., 2019^[59]). Today, the reference for redistribution is how much subnational governments spend on their budget, which of course depends on their tax regime and political willingness, while not telling much about the efficiency of resource allocation. The CAQ index seeks to compensate for that, by adding the dimension of quality, which has become an important directive for Brazil's education policy, at least since the 1996 Law of Directives and Bases of Education (LDB).

Assessing multi-level governance in Brazil: Key messages and recommendations

Brazil has a complex multi-level institutional and financial architecture. The quality of multi-level governance can have great impact on the delivery of decentralised policies in Brazil. When auditing these policies an assessment of the multi-level governance dimension is particularly crucial.

To direct the assessment of the MLG dimension in an audit TCs could, as a pre-audit study, develop an assessment framework, by following these steps:

- describing the multi-level governance system for a policy area and identify key dimensions that could be assessed during the audit
- defining key maturity indicators for each of these dimensions, stating unit of analysis; description and rationale of the indicator; information and sources needed for assessment; and diagnostic question for evaluating the level of maturity
- specifying the different levels of maturity for each indicator, distinguishing between basic, partially achieved and good
- applying the MLG assessment framework to plan and design the audit.

Following these steps, and based on the MLG generic assessment framework developed by the OECD, TCs may develop MLG assessment frameworks for any policy sector(s) that will be audited. These framework(s) may contain the six dimensions of the generic framework – but should not be restricted to them:

1. assignment of responsibilities
2. funding of subnational responsibilities
3. capacities of subnational governments and capacity building
4. co-ordination among levels of government
5. performance monitoring and transparency
6. fiscal equalisation systems and regional policies to reduce territorial disparities.

These dimensions should not be considered an exhaustive list of the multi-level governance challenges in Brazil; they can be revised and refined depending on the needs and evolution of the country and the TCs while following the four steps detailed above. Steps 1-3 of the described model do not attempt at providing an exhaustive assessment of the MLG system for a selected policy sector, but a detailed description that could serve as a basis to conduct this assessment during the audit process.

Annex 3.A. Multi-level governance assessment frameworks

A generic multi-level governance assessment framework for Brazil

The framework below presents all the maturity indicators developed by the OECD for the generic MLG assessment framework. The different maturity levels were defined based on the 10 guidelines for making decentralisation work (OECD, 2019^[3]) and the OECD Recommendation on Effective Public Investment across levels of government (OECD, 2019^[2]).

Dimension 1: Assignment of responsibilities

Criteria: Clear definition of responsibilities across levels of government

Unit of Analysis: All levels of government

Criteria description (rationale): A clear and transparent division of powers implies that the responsibilities of various levels of government must be codified in significant detail in legal and regulatory frameworks, and/or intergovernmental agreements, among others. The more a responsibility area is shared across different government levels, the greater clarity is needed to reduce duplication and overlaps, particularly in federal contexts.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: To what extent do the law/regulations clearly specify the responsibilities of the different levels of government?

Maturity levels

The sharing of responsibilities and functions is not clearly stated in law/regulations.	The law/regulation clearly identifies which level of government is responsible for service provision and evaluation in each sector but these responsibilities are fuzzy in practice.	All levels of government clearly identify their responsibilities and functions, for own and shared competences.
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Criteria: Clear and coherent allocation of functions across levels of government

Unit of Analysis: All levels of government

Criteria description (rationale): In addition to the clear definition of responsibilities, it is important to clarify each sub-function, i.e. the role of various levels of government in policy, legislation, standards, oversight, financing, provision/administration, production, distribution, performance monitoring, evaluation, citizen complaints, feed-back and redress mechanisms.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: To what extent do the law/regulations clearly specify the functions of the different levels of government in relevant policy area?

Maturity levels

There is an overlapping of functions among various levels of government (e.g. planning, policy, finance and provision) in most policy areas.	The separation of functions among various levels on planning, policy, finance and provision is not completely clear for each policy area.	The assignment of different functions within policy areas (financing, regulating, implementing or monitoring) is clear and well-balanced.
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Criteria: Municipal spending autonomy

Unit of Analysis: Subnational governments

Criteria description (rationale): Spending autonomy is determined as the degree of autonomy and decision-making authority of subnational governments in their fields of responsibility. Spending autonomy is low when local governments act as agencies funded and regulated by the central government rather than as independent policymakers. It can also be limited if subnational service provision is strongly steered by normative regulation set by a higher level of government without consulting lower levels of government.

Source of information: Field work (interviews, focus groups), law and regulations, previous audits.

Diagnostic question: To what extent subnational governments have autonomy and decision-making authority in their areas of responsibility?

Maturity levels

Municipalities do not have the autonomy to decide on level and composition of spending and service standards.	Municipalities have limited autonomy to decide on level and composition of spending and to set service standards depending on services.	Municipalities have the autonomy to decide on level and composition of spending and to set service standards depending on services.
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Criteria: Accountability of subnational governments

Unit of Analysis: Subnational governments

Criteria description (rationale): In decentralised systems, elected local authorities are often accountable to residents who finance and consume the services. Mechanisms to assess accountability of governments include local and national elections, but also other channels for citizens to express their voices, such as participation in surveys, town meetings, local referenda and direct involvement in service delivery. Large variations exist across countries in terms of responsibilities and local decision-making powers, resulting in varying degrees of accountability, and varying ranges of central government control.

Source of information: Law, regulations, surveys, minutes of town meetings, perception surveys, previous audits.

Diagnostic question: To what extent are local governments accountable for the delivery of services under their area of responsibilities?

Maturity levels

Local governments are not directly accountable to the citizens for the provision of services, but report essentially to higher levels of government.	The municipality promotes transparency in its policy-making to be accountable to the citizens.	The municipality has in place specific tools/mechanisms to ensure that citizens are well-informed about which level of government is responsible for what, and whom to approach, at which level, to address their concerns about service quality of service failure. Information regarding management/performance is available to any citizen who requests it.
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Criteria: Public service provision coverage**Unit of Analysis:** Municipal government

Criteria description (rationale): According to the principle of subsidiarity, taxing, spending and regulatory authority for any service should be vested in the lowest order of government, unless a convincing case can be made for higher order assignment (lack of capacity or resources). To assess this criteria, the allocation of competences should ensure that minimum standards for service coverage are met by each local government throughout the country.

Source of information: Field work (interviews, focus groups), public service assessments, previous audits.

Diagnostic question: To what extent is there a homogenous coverage of public services over the whole territory at the local level?

Maturity levels

There is low coverage of public service provision within the municipality's jurisdiction.	There is only partial coverage of public service provision within the municipality's jurisdiction.	The municipality ensures good and sufficient levels of service provision.
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Criteria: Citizens' engagement**Unit of Analysis:** All levels of government

Criteria description (rationale): Subnational public governance systems can facilitate the participation and engagement of private citizens and other stakeholders in deliberations on public policy choices and the delivery of local public services. The modalities for citizens' engagement vary depending on local contexts, including tools for citizens to express their opinions on local services and problems.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits

Diagnostic question: Are citizens engaged in the decision-making process at all levels of government?

Maturity levels

There are no forms of citizens' engagement and consultation with stakeholders.	The subnational government consults citizens to define priorities and/or at specific steps of the decision-making process.	The subnational government engages citizens and relevant stakeholders to define priorities all along the decision-making process.
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Dimension 2: Funding of subnational governments**Criteria: Funding of core responsibilities****Unit of Analysis:** Subnational governments

Criteria description (rationale): For a decentralisation model to be effective, responsibilities for spending (expenditure needs) must be sufficiently funded. This means that local governments' revenue means (including own revenues, shared taxes and transfers) must be consistent with expenditure needs, for each level of government to discharge its public service responsibilities consistent with its mandate. This consistency between revenue-generating means with expenditure needs is a factor of political accountability and responsiveness to local preferences.

Source of information: Law, subnational financial accounts and field work (interviews, focus groups), previous audits.

Diagnostic question: Do subnational governments own revenues finance a large share of their expenditure?

Maturity levels

Municipal revenue (earmarked and non-earmarked) is not adjusted to the need of the municipality to meet responsibilities in most sectors.	Revenue earmarking is adjusted to the need of the municipality to meet its responsibilities only for certain policy sectors.	Revenue earmarking is adjusted to the need of the municipality to meet responsibilities in all sectors.
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Criteria: Tax autonomy

Unit of Analysis: Subnational governments

Criteria description (rationale): Tax autonomy depends on many factors, including the ability of local government to set or modify tax rates and bases (in addition to revenue from transfers, tariffs, user charges or fees or from local assets). There is no general rule for an optimal degree of tax autonomy, but local authorities should generally rely on their own revenues for financing their services at the margin. A particular challenge for the central government consists in setting up the vertical distribution of tax revenues among levels of government and to determine which taxes to assign to subnational governments, under what criteria, and with which degree of discretionary power over tax bases and rates.

Source of information: Law, subnational financial strategies, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the municipality has autonomy over its tax base?

Maturity levels

The municipality has a low degree of tax autonomy, with no decisions taken at the local level over tax rates and base, and does not perform a high level of tax collection.	The municipality makes only partial use of its tax autonomy, primarily through tax collection.	The municipality has a large degree of tax autonomy, by acting on tax rates and tax collection, and acts to expand its tax base through proactive measures (e.g. tax sharing options).
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Criteria: Intergovernmental transfers

Unit of Analysis: All levels of government

Criteria description (rationale): The extent of discretion in intergovernmental transfers may vary, from earmarked and conditional transfers to general-purpose grants based on a formula. In general, municipalities with limited fiscal capacity are more reliant on intergovernmental transfers, which must be stable, predictable, and based on transparent and well-defined criteria, adapted to regional and local specificities.

Source of information: Law, subnational financial accounts, field work (interviews, focus groups).

Diagnostic question: Are intergovernmental transfers to the municipality designed and implemented in a stable and regular basis?

Maturity levels

The rule to determine intergovernmental transfers are not clear and transparent, and as a result, revenue from transfers do not meet the financing needs of the municipality.	The rule to determine the transfers is clear and transparent but does not consider the correct criteria/ variables.	The intergovernmental fiscal framework is clear, with timely indications for transfers between levels of government, and there is minimal variance between estimated and actual transfers.
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Criteria: Municipal financial management**Unit of Analysis:** All levels of government

Criteria description (rationale): Financial management capacity refers to the ability of subnational governments to ensure the effective use of internal and external resources with integrity. This includes budget preparation, cash management, transparent procurement processes to mitigate corruption, how to use internal controls and internal and external audits to ensure efficiency and integrity. Proper costing and budgeting can also serve to prioritise and execute investment programmes effectively.

Source of information: Fiscal rules and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the municipality apply best practices in budget management and budget reporting?

Maturity levels

The municipality lacks financial management capacity for financial accounting and reporting, and staff training does not cover local financial management.	The municipality is working on strengthening its practices for financial accounting, budget management and reporting (including budget methods, budget formulation, budget execution, revenue analysis, as well as strategic planning).	The municipality has the financial management capacity to decide on best practices for financial accounting and reporting (including budget methods, budget formulation, budget execution, revenue analysis, as well as strategic planning), and good practices in financial management are reflected in budget strategies and allocation processes.
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Criteria: Use of Innovative financing mechanisms**Unit of Analysis:** Subnational governments

Criteria description (rationale): In cases where public sources of funding are insufficient to cover expenditure and investment needs at the state government and local government levels, diversifying revenue sources by resorting to external sources of financing and innovative financing mechanisms can help cover this gap. Local and state governments can mobilise innovative sources of financing through partnering with the private sector and institutional investors, issuing bonds, Public-Private Partnerships, joint borrowing in capital markets or other instruments such as green bonds and social bonds.

Source of information: Subnational financial accounts, field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government access innovative sources of financing for financing expenditure and investment needs?

Maturity levels

There is no consideration at the municipal level for the use of new, innovative financing instruments.	Innovative financing instruments are seldom used at the municipal level, based on knowledge of the existing staff.	The use of new, innovative financing instruments at subnational levels is accompanied by assessment of their benefits, risks, and municipal capacities to employ them.
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Criteria: Municipal debt and borrowing**Unit of Analysis:** Subnational governments

Criteria description (rationale): The ability of governments to decide on how and when to use debt, how to assess debt affordability, what debt to use, how to issue and how to manage debt is crucial. This is particularly the case for subnational government, considering that if the level of subnational debt is too high, this may have repercussions on the sustainability of public finances and the capacity of local governments to finance future needs. Municipal borrowing capacity can be determined by the extent to which a local government can borrow, as well as budget constraints and fiscal rules applicable to local governments

Source of information: Law, national and subnational financial accounts, field work (interviews, focus groups).

Diagnostic question: To what extent can the municipality borrow in a sustainable way?

Maturity levels

The municipality bears a large deficit and growing level of debt and/or has very limited borrowing autonomy.	The municipality is working on improving its fiscal situation and borrowing capacity.	The municipality has a sustainable level of debt and can borrow up to her needs, without excessive constraints from higher levels of government.
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Dimension 3: Capacities and capacity building**Criteria: Subnational strategic capacity****Unit of Analysis:** Subnational governments (states and/or municipalities)

Criteria description (rationale): Strategic capacity refers to the ability to set strategic goals for social, political and economic outcomes and having the administrative and institutional capacity to realise those goals within a stated period. Strategic capacity is especially critical for local and regional development strategies that require substantial citizen input and co-ordination across and beyond governments. The lack of sufficient technical or strategic capacities is one of the bigger challenges in the field of decentralisation, as building capacities takes time and needs a long-term commitment from central and subnational governments.

Source of information: Municipal/state strategic documents, field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government have the strategic capacity to set realistic objectives and goals, and develop strategic plans for local economic development?

Maturity levels

The municipality/state has low capacity to set realistic objectives and goals over the medium and long-term, and therefore to develop appropriate policies.	The municipality/state set realistic objectives and goals in line with existing policies, regulatory and legal frameworks.	The municipality/state has the capacity to set realistic objectives and goals over the medium and long-term, and develop and implement appropriate policies and regulatory and legal frameworks.
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Criteria: Staffing needs**Unit of Analysis:** Subnational government

Criteria description (rationale): The good allocation of staff is essential to ensure the delivery of results at the level of the government administration. This depends to a large extent on the staff selection process, and the types of evaluations that are conducted to assess staff performance and contributions. It is recommended to ensure open, competitive hiring and merit-based promotion to meet these goals.

Source of information: Field work (interviews, focus groups).

Diagnostic question: Has the local government put in place a staff hiring process able to meet its capacity needs?

Maturity levels

The municipal staff hiring process is not transparent and not ensured on a competitive basis.	The staff hiring process is open and transparent, but does not respond to strategic human resources management.	The municipality has set up an effective system of staff hiring and promotion, based on outcomes and needs (strategic human resources planning).
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Criteria: Capacity-building for subnational policies**Unit of Analysis:** All levels of government

Criteria description (rationale): Local governments may face growing pressure to increase their size and capacity when they are transferred to an increasing number of tasks, in order to cope with the additional responsibilities. To face this increase, it is necessary to strengthen government capacities at the subnational level, with capacity building policies tailored to the various needs of subnational governments. Building and strengthening subnational capacities is a long-term commitment, which requires sustained resources and political commitment from both subnational and central/federal government levels, including the right framework conditions for decentralisation to be in place.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government benefit from capacity-building programmes adequately funded and planned over the long-term?

Maturity levels

Municipal staff do not receive any type of training/technical assistance from external entities or other levels of government.	Trainings available for municipal staff are too narrow and do not meet the needs of the municipality.	The municipality relies on capacity-building provided by the central and federal levels or external units for technical training of civil servants in a variety of sectors adapted to its needs (for instance for managing public-private partnerships).
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Criteria: Technical guidance documents**Unit of Analysis:** All levels of government

Criteria description (rationale): An effective way to support capacity-building at the subnational level is to distribute formal/standardised guidance documents in areas such as planning, project appraisal, procurement, or monitoring and evaluation.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Are technical guidance documents available to local governments to guide them in subnational policy areas?

Maturity levels

Technical guidance documents for administrative tasks, planning or evaluation are not available for all levels of government.	Technical guidance documents are available for actors at all levels of government in some specific sectors only.	Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation.
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Criteria: Digital tools

Unit of Analysis: Subnational governments

Criteria description (rationale): Digital tools can support the work of subnational governments in a number of ways. Information and communication technology (ICT) and most recent technological changes (blockchain, robotics) have multiplied the opportunities for local governments to improve the ways they communicate and involve citizens (e.g. e-democracy and ICT-based participation). Digital tools also help governments provide local public services (e-government), manage public resources in a more efficient manner (e.g. for tax collection), improve staff capacity and management and adopt new public management models. Digital tools can finally improve the relationships between the central and subnational governments, facilitating the shift towards more decentralised governance practices.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government use digital tools in administrative tasks and service provision?

Maturity levels

The municipality makes no use of e-government tools or new technologies.	The municipality makes exceptional use of e-government tools and new technologies for specific projects.	The municipality uses e-government tools regularly to simplify administrative procedures for daily work and public investment projects
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Criteria: Subnational capacities for public investment

Unit of Analysis: Subnational governments

Criteria description (rationale): The lack of capacity to design and implement the right investment-mix is often a main bottleneck at the subnational level. Defining, structuring, implementing, operating and monitoring public investment requires a very diverse set of capacities, in particular for infrastructure investments, which are unevenly distributed among the territories. Specific skills and expertise is needed from within the staff to perform these functions in an effective way.

Source of information: Municipal investment strategies and plans, field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government have sufficient capacity to plan and implement public investment?

Maturity levels

There is a lack of skilled-staff to plan and implement public investment in the municipality.	The municipality has a team dedicated to plan and/or implement public investment with specific skills.	Human resource management policies of the municipality demonstrate particular attention to the skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, and appropriate training is available and used).
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Criteria: Horizontal co-ordination and knowledge-sharing for capacity-building**Unit of Analysis:** All levels of government

Criteria description (rationale): Local governments and municipalities are not all and not always equipped with the same level of capacity to ensure successful service delivery and policy implementation, as there can be important differences between subnational governments in financial capacity and administrative skills (in terms of staff, expertise, scale). This can lead to increase disparities among local governments themselves. To reduce these disparities, horizontal co-ordination can be carried out by promoting inter-municipal, interregional co-operation, or metropolitan governance for instance. Through rural-urban partnerships in particular, rural local governments can benefit from the resources and expertise from their urban counterparts, and both parties can strengthen their capacities. The legal system at the national level should allow such tools.

Source of information: Law, regulations, and field work (interviews, focus groups).**Diagnostic question:** Does the local government participate in peer-to-peer sharing platforms or other institutions of horizontal co-ordination, with the objective of strengthening its capacities?**Maturity levels**

The municipality is not engaged in knowledge-sharing with other subnational governments, and lacks the legal framework for such co-operation.	The municipality occasionally participates in knowledge-sharing networks with other municipalities and/or state governments.	The municipality is systematically engaged in knowledge-sharing with other subnational governments at the federal and local levels, and actively shares good practices in fields where its expertise is high.
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Dimension 4: Co-ordination among levels of government**Criteria: Consistent legal and regulatory frameworks****Unit of Analysis:** All levels of government

Criteria description (rationale): In a decentralised context, the central government has to provide an overarching framework and guidelines for sectoral policies and strategies, in order to ensure that policies that are designed and implemented at all levels are driven by a common goal and do not follow contradictory objectives. Consistent legal and regulatory frameworks should be aligned at all levels to ensure that objectives are met.

Source of information: Law, regulations.**Diagnostic question:** Are frameworks at the national, regional and municipal level aligned in each policy sectors?**Maturity levels**

The actions taken by the municipality are not conform to federal normative acts and central sectoral acts.	The actions taken by the municipality conform to federal normative acts and central sectoral acts in most cases.	The actions taken by the municipality conform to federal normative acts and central sectoral acts.
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Criteria: Vertical co-ordination for policy planning**Unit of Analysis:** All levels of government

Criteria description (rationale): In a decentralised context and in federal countries in particular, unilateral decisions without consultation may undermine trust. It is therefore important to find the right balance

between top-down and bottom-up approaches. Intergovernmental platforms for vertical co-ordination have the potential to help clarify, co-ordinate, and develop reform options, joint provision or partnership arrangements for tax, expenditure, revenue sharing and transfers, public services delivery and regulatory policies. They make take the form of dialogue platforms, fiscal councils, standing commissions and intergovernmental consultation boards.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Are there tools and platforms for vertical co-ordination across levels of government?

Maturity levels

The municipality is not involved in any formal co-ordination platform involving the state and national levels.	The municipality participates in co-ordination platforms (e.g. convenios, pactos federativos) on an ad hoc basis, involving only a single policy sector.	The municipality co-ordinates effectively with the state/federal levels through formal institutions on a regular basis, and with a multi-sector approach.
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Criteria: Co-ordination arrangements for financing

Unit of Analysis: All levels of government

Criteria description (rationale): Formal co-financing arrangements instruments (e.g. contract, associations) are helpful to build trust between levels of governments. In some cases, there can be single or multi-purpose co-operative agreements/contracts (e.g. shared services arrangements in healthcare or education). These arrangements also provide a long-term perspective for the financing and investment strategies of local and regional governments through long-term service outsourcing.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Is the subnational government engaged in co-financing arrangements?

Maturity levels

The municipality does not participate in any type of co-financing arrangement for service and investment provision.	The municipality participates in some co-financing arrangements but its use remains limited due to limitations set by the law, complexity of procedures, and lack of capacity to engage in partnership agreements with other stakeholders.	the municipality systematically participates in co-financing arrangements to deliver policy/investments that address local needs.
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Criteria: Multi-year programming

Unit of Analysis: Subnational governments

Criteria description (rationale): A multi-year approach to policy-making, and in particular investment policies, can support local government's capacity to prioritise its expenditure and investment programmes, and ensure that they are aligned with priorities set at the regional and national levels of government. Multi-year programming is done by connecting planning and budgeting frameworks, and can also help provide visibility regarding resource availability and predictability, particularly for financing long-term projects, which may need to survive changes of government.

Source of information: Municipal and state governments budgets, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the subnational government develop multi-year investment programming and medium-term budget forecasts?

Maturity levels

The municipality does not have/develop multi-year budget forecasts linked to policy planning/investments.	Municipal policy programming is linked to multi-year budget forecasts, which are not necessarily aligned with other levels of government.	Municipal policy programming is linked to multi-year budget forecasts, which are reviewed regularly and aligned with other levels of government.
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Criteria: Participatory/Citizens budgets

Unit of analysis: Municipalities

Criteria description: Participatory Budgeting is a process whereby citizens directly participate in the allocation of a defined part of a government's budget. They are initiatives typically initiated by local government authorities, frequently in response to demands from community groups, CSOs and/or citizens for a greater say in deciding how and where public resources should be spent. Participatory budgeting creates opportunities for educating and empowering citizens and for strengthening citizen-government relations. It also helps to promote government transparency and accountability, and the responsiveness and effectiveness of government programmes and services.

Source of information: field work (interviews, focus groups), websites, previous audits.

Diagnostic question: Does the municipality conduct participatory budget initiatives to respond to citizen's demands and promote transparency and accountability?

Maturity levels

The municipality has not undertaken Participatory/Citizens budgets or any other similar form of participatory fund allocation in the past 3 years.	The municipality has undertaken Participatory/Citizens budgets or another similar form of participatory fund allocation at least once in the past 3 years.	The municipality systematically implements participatory/Citizens budgets or another similar form of participatory fund allocation every year, making efforts to increase the amount of budget and number of stakeholders involved.
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Criteria: Resolution of conflict between municipal, state and central administrations

Unit of Analysis: All levels of government

Criteria description (rationale): When powers and responsibilities are shared and concurrent, a legal framework must establish which level of government has legislative supremacy in the event of a conflict. If multiple levels of government have exclusive jurisdiction in sub-areas of a function (for example, education, health or environment impact assessment), then inter-governmental agreements must specify the precise processes to reach an agreement and to resolve conflicts in allowing projects to proceed. In the absence of such clarity, critically important projects in specific policy areas may be unduly delayed, or even abandoned.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the legal framework provide adapted mechanisms to reach an agreement in case of conflict between various levels of government?

Maturity levels

There is no institutional mechanism in place for conflict resolution across levels of governments.	Institutional mechanisms are in place for consultation and burden-sharing in the various policy area, to ensure minimum conflicts across levels of government.	Institutional mechanisms are in place effectively for each function for conflict resolution.
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Criteria: Horizontal co-ordination for service provision

Unit of Analysis: All levels of government

Criteria description (rationale): Horizontal co-ordination is essential to increase efficiency through economies of scale and to enhance synergies among policies of neighbouring (or otherwise linked) subnational governments. Horizontal co-ordination mechanisms can take a variety of forms (e.g. inter-municipal co-operation, mergers), depending on the characteristics of the locality and policy objectives. In addition, horizontal co-ordination can be directly encouraged and rewarded by higher levels of governments through incentives, grants, etc.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the municipality develop mechanisms for horizontal co-ordination for service provision?

Maturity levels

The municipality is not engaged in horizontal co-ordination for service provision and investment.	The municipality engages with neighbouring municipalities on an ad-hoc basis to plan and implement policies.	There are clear mechanisms to ensure and encourage that the municipality engages systematically with neighbouring municipalities to provide services in a number of policy areas (including rewarding mechanisms).
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Criteria: Cross-jurisdictional partnerships involving investment

Unit of Analysis: Subnational governments

Criteria description (rationale): To ensure that public investments are made at the relevant scale, horizontal co-ordination is crucial. It is important for physical infrastructure provision where the efficient scale often exceeds the administrative boundaries of individual local governments, and for investments in human capital development and innovation where administrative and functional boundaries may not coincide. For these reasons, governments should provide incentives and/or seek opportunities for horizontal co-ordination across regions and/or local governments to match public investment with the relevant geographical scale (e.g. through contracts, specific public investment partnerships, joint authorities, or regional or municipal mergers).

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government seek to develop cross-jurisdictional partnerships for co-ordinating investment with other local governments?

Maturity levels

The municipality is not engaged in any cross-jurisdictional partnership for investment.	Municipalities pay attention to potential complementarities and conflicts among investments by other municipalities.	The municipalities systematically co-ordinates investments with other municipalities through well-established mechanisms such as contractual agreements/partnerships/unions.
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Dimension 5: Performance measurement and transparency

Criteria: *Ex ante* analysis to inform decision-making at different stages of the policy process

Unit of Analysis: Subnational government

Criteria description (rationale): *Ex ante* appraisal helps identify the long-term impact and risk of public spending and investment upfront in the policy cycle. It can support identifying the social, environmental and economic impact of public spending, while also assessing which method can yield the best value for money. To be rigorous and maximise its effects, *ex ante* appraisal must be conducted by staff with the necessary skills, be subject to an independent review, and follow high-quality technical guidelines.

Source of information: Law, guidance documents for *ex ante* analysis, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the subnational government conduct *ex ante* analysis to prioritise and assess the impacts of public spending?

Maturity levels

The municipality lacks the necessary information and capacity to conduct <i>ex ante</i> appraisal to inform public spending.	The municipality occasionally conducts <i>ex ante</i> appraisal before undertaking public projects, but with limited information and knowledge to do it on a regular basis.	A large share of public spending and investment by the municipality is subject to <i>ex ante</i> appraisal, ideally subject to independent review.
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Criteria: *Ex post* evaluations to improve performance all along the policy cycle

Unit of Analysis: All levels of government

Criteria description (rationale): The prioritisation of projects at the municipal level can be improved through *ex post* evaluations and by developing forward-looking scenarios. *Ex post* evaluation addresses the goals of policies, seeking to determine if intended outcomes were achieved, and the role played by public expenditure and investment activities. The central government can support local governments through this process by requiring and/or co-financing *ex post* evaluations at the subnational level, and by setting up an independent institution at the national level to carry out these evaluations.

Source of information: Law, guidance documents for *ex post* evaluation, and field work (interviews, focus groups), previous audits.

Diagnostic question: Are *ex post* evaluations conducted by the subnational government, based on clear *ex post* evaluation standards?

Maturity levels

There is no <i>ex post</i> evaluations of policies/programmes implemented by the municipality, and therefore performance evaluation does not directly contribute to improve the performance of the municipal decision-making process.	The municipality conducts evaluations but their result does not impact the decision-making process.	<i>Ex post</i> evaluations are regularly conducted by independent bodies (e.g. research organisations, universities, consultancies) and it is possible to link performance evaluation results with performance improvements in the subsequent cycles.
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Criteria: Outcome-based performance systems for social policies

Unit of Analysis: All levels of government

Criteria description (rationale): Outcomes-oriented public policy strategies focus on the outcome and performance of expenditure and investments. To assess this performance, the monitoring system must use criteria for service outcomes. Evaluation and monitoring criteria need to be defined in the early stages of the policy design, in order to allocate the resources needed and produce the appropriate data for this purpose. In addition, governments at all levels need the adequate capacity to monitor these criteria and adjust them if needed, based on the local contexts.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the performance monitoring system of the local government uses criteria for service outcomes?

Maturity levels

There is no mechanism for monitoring the effectiveness of sectoral policies.	The municipality has set up basic indicators to monitor the effectiveness of sectoral policies.	The municipality has mechanisms in place to monitor and evaluate performance in terms of policy/social outcomes, incorporating output and outcome (results, indicators, with measurable targets).
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Criteria: Guidance documents for rigorous monitoring and evaluation

Unit of Analysis: All levels of government

Criteria description (rationale): Monitoring and evaluation are important mechanisms for accountability and learning: for transferring knowledge among parties and for improving performance by integrating feedback in each policy area. Clear guidance documents should be provided to local governments to set up *ex post* evaluation standards.

Source of information: Law, guidance documents and field work (interviews, focus groups) , previous audits.

Diagnostic question: Do local governments have the necessary guidelines and tools for conducting effective monitoring and evaluations?

Maturity levels

The municipalities use traditional government tools related to performance measurement.	The municipality uses ICT/e-government tools for reporting on performance only.	The municipality conducts evaluations based on clear and rigorous standards for measuring and monitoring performance.
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Criteria: ICT tools and new technologies for performance evaluation

Unit of Analysis: All levels of government

Criteria description (rationale): Local governments can be encouraged to rely on an extensive set of mechanisms for performance evaluation, including ICT and e-government tools (e.g. ICT platforms). ICT and e-government tools can be used for tracking enquiries/transactions, measuring service delivery response times and surveying customers. ICT tools can also help government to better understand who the service users are and to learn about their needs.

Source of information: Municipal practices and field work (interviews, focus groups)

Diagnostic question: Do local governments use ICT and e-government tools to measure, monitor and disseminate their own performance?

Maturity levels

The municipalities do not use ICT/e-government tools related to performance measurement.	The municipality uses ICT/e-government tools for reporting on performance only.	The municipality uses ICT/e-government tools for measuring and monitoring performance and/or reporting on performance.
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Criteria: Benchmarking analysis for performance measurement

Unit of Analysis: All levels of government

Criteria description (rationale): Following the growing interest in international benchmarking of performance across the OECD, all levels of governments can produce benchmarking analysis in selected policy areas (e.g. health, education), at the inter-local, regional and/or international level, and use the information available for performance measurement. To this end, information among local governments must be accessible openly, and updated regularly.

Source of information: Law, and field work (interviews, focus groups), previous audits.

Diagnostic question: Does the local government perform benchmarking analysis to assess its performance measurement?

Maturity levels

Performance measurement is not supported by benchmarking mechanisms, due to a lack of capacity and available data.	Efficiency benchmarking is carried out periodically for performance measurement.	Efficiency benchmarking is carried out periodically by the municipality, and data of such analysis is openly available.
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Criteria: Transparency and reporting

Unit of Analysis: All levels of government

Criteria description (rationale): All levels of governments should be committed to consistently improve transparency, enhance data collection and strengthen their performance monitoring systems. Transparent and freely available information enables performance measurements and benchmarking between governments and their agencies and entities. To this end, it is important to ensure that evaluations are disseminated and reported to the citizens, higher-order governments, private sector and other interested parties.

Source of information: Law, regulations, and field work (interviews, focus groups), previous audits.

Diagnostic question: Are evaluations disseminated openly to public and private stakeholders?

Maturity levels

Information on performance is not disseminated to the public.	Information on performance is accessible to the public.	The municipality pro-actively disseminates performance information and seeks citizens' feedback, including information on monitoring of the agreements reached across levels of governments.
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Criteria: Availability and transparency of administrative procedures

Unit of analysis: State/municipalities

Criteria description: A majority of procurement is undertaken at the subnational level and at the same time it is one of the government activities most vulnerable to waste, fraud and corruption. Transparency

throughout the procurement cycle, professionalisation of the procurement function, and clear accountability and control mechanisms are all required.

Source of information: Field work (interviews, focus groups), e-tools, websites, previous audits.

Diagnostic question: Are the administrative procedures for public procurement transparent and clear for citizens and business?

Maturity levels

The state/municipality does not have a single registry where all the administrative procedures are available for citizens and businesses to consult.	The state/municipality has a single registry where all the administrative procedures are available for citizens and businesses to consult.	The state/municipality has a single registry where all the administrative procedures are available for citizens and businesses to consult. The registry is operational, can be readily accessed by all online on the municipal/state website. The registry information is updated on a regular basis and includes user-friendly guidance. The registry also allows citizens to submit information and receive a response.
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Dimension 6: Territorial inequalities

Criteria: Fiscal equalisation focusing on fiscal needs

Unit of Analysis: All levels of government

Criteria description (rationale): Fiscal need equalisation can be achieved through a demand for services approach that allocates funds by service population, e.g. school-age population for school finance. Alternately, fiscal need equalisation can be achieved through output-based sectoral grants that also enhance results-based accountability. It is recommended to establish separate formula allocations for each type of municipality/local government, acknowledging population size, the area served and the urban/rural nature of services in making grants to local governments.

Source of information: Legal texts, subnational government financial accounts, interviews, previous audits.

Diagnostic question: Is the fiscal capacity of the local government equalised based on its fiscal needs?

Maturity levels

There is no equalisation system/ The equalisation system does not take into account the fiscal needs of the municipality.	The equalisation system only partially recognises the fiscal capacity and fiscal need of the municipality (based on potential per capita revenue from each base, actual per capita revenues, macro criteria).	The equalisation system efficiently allows the equalisation of fiscal needs of the municipality.
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Criteria: Simple and clear fiscal equalisation system

Unit of analysis: All levels of government

Criteria Description: In the design of fiscal equalisation transfers, rough justice is better than precise or full justice if it achieves wider acceptability and sustainability. It is important to focus on a single objective (equalisation for equalisation transfers) in a grant programme and make the design consistent with that objective. Setting multiple objectives in a single grant programme runs the risk of failing to achieve any of them.

Source of information: Legal texts, subnational government financial accounts, interviews, previous audits.

Diagnostic question: Has the fiscal equalisation system in place a single and clear objective?

Maturity levels

There is no equalisation system.	The equalisation system is not clear and the overall complexity of the programme is perceived as high/medium complex.	The equalisation system focuses on a single objective and is designed according to this objective. The overall complexity of the programme is perceived as low.
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Criteria: Regional development policies to reduce inequalities

Unit of Analysis: All levels of government

Criteria description (rationale): In order to offset the potentially negative incentives of equalisation systems, these systems need to be accompanied by pro-active regional development policies, implemented at the national, regional and local levels.

Source of information: National, regional and local development plans, interviews, previous audits

Diagnostic question: Are there active regional development policies and incentives in place to reduce disparities at the local government level, especially between rural and urban areas?

Maturity levels

There is no regional development policy or incentive in place to support the equalisation of the municipality with other municipalities in policy areas.	There is a regional development strategy under development to support the reduction of inequalities at the municipal level.	There is a regional development strategy in place in complement to the equalisation of the system to ensure it benefits the municipality and its nearby territories.
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A multi-level governance assessment framework for the education sector in Brazil

Dimension 1: Responsibilities clearly assigned and accountable

Criteria: Clear definition of responsibilities across levels of government in the sector of education

Unit of Analysis: State and municipal levels of government

Source of information: 1988 Constitution (arts. 21 to 24 and arts. 205 to 214), Law of Bases and Directives of Education (LDB) (Law n° 9.394/1996), Law of the National Education Plan (PNE) (Law n° 13.005/2004) and All for Education Commitment Plan and Co-ordinated Action Plan (PAR) legislation (Decree n° 6.094/2007).

Diagnostic question: Do the law/regulations clearly specify the responsibilities of the different levels of government in the sector of education?

Maturity levels

The sharing of responsibilities and functions is not clearly stated in law/regulations.	The law/regulation clearly identifies which level of government is responsible for each level of education, but these responsibilities overlap or are fragmented in practice.	All levels of government clearly identify their responsibilities and functions, for own and shared competences.
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Criteria: Municipal spending autonomy**Unit of Analysis:** Municipal level of government**Source of information:**

- 1988 Constitution (arts. 205 to 214), Law of Bases and Directives of Education (LDB) (Law n° 9.394/1996, especially articles 68 to 77), FUNDEB Law (Law n° 11.494/2017), Wage Floor Law (Law n° 11.738/2008).
- National Tax Code (CTN) (Law n° 5.172/1966, especially arts. 32 to 34, 77 to 79, 83 to 85 and 91).
- Each Municipality has its Municipal Organic Law, Tax Code, Administrative Organisation Law and Law of Local Education Plan.

Diagnostic question: Do local governments have full autonomy and decision-making authority to deliver primary and lower secondary education?

Maturity levels

Municipalities do not have the autonomy to decide on level and composition of spending and education standards.	Municipalities have limited autonomy to decide on level and composition of spending and to set education standards.	Municipalities have the autonomy to decide on level and composition of spending and to set education standards.
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Criteria: Coverage of public services related to education**Unit of Analysis:** Municipal and state level of government**Source of information:**

- Local Education Plan and other relevant local plans related to public service provision (Transportation plan).
- Documents at state and federal levels regarding transportation arrangements.

Diagnostic question: Is the provision of education services homogenous and well-adapted to the whole territory of the subnational government's jurisdiction?

Maturity levels

There is low coverage of public service provision within the municipality's jurisdiction, with strong overlapping with other jurisdictions.	There is only partial coverage of public service provision (e.g. transportation to school) within the municipality's jurisdiction, due to a lack of clarity of responsibilities with other levels of government.	The municipality ensures good and sufficient levels of service provision surrounding school access (e.g. transportation), in co-operation with other levels of government.
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Dimension 2: Responsibilities sufficiently funded**Criteria: Intergovernmental transfers earmarked for education****Unit of Analysis:** All levels of government**Source of information:**

- 1988 Constitution (arts. 205 to 214) and Law of Bases and Directives of Education (LDB) (Law n° 9.394/1996, especially articles 68 to 77).
- FUNDEB Law (Law n° 11.494/2017) and Educational Allowance Law (Law n° 9.424/1996 and Law n° 9.766/1998).

- National Programme to Support School Transportation (PNATE) (Law n° 10.880/2004), National Programme of School Meals (PNAE) (Law n° 11.947/2009), Direct Money at School Programme (PDDE) (Law n° 11.947/2009) and National Programme of Textbooks (PNLD) (Decree n° 91.542/1985).
- Field research with interviews and questionnaires to assess the balance between funding and assigned responsibilities.

Diagnostic question: Are intergovernmental transfers to municipalities for the education sector designed and implemented on a stable and regular basis?

Maturity levels

Revenue from transfers do not meet the financing needs of the municipality, with large gaps incurred by a lack of clarity of transfers for education responsibilities.	The rule to determine the transfers earmarked to education spending is clear and transparent but does not consider the correct Criterias/ variables.	The intergovernmental fiscal framework for education expenditure is clear, with timely indications for transfers between levels of government, and there is minimal variance between estimated and actual transfers.
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Criteria: Subnational financial management and resource mobilisation for funding the education sector

Unit of Analysis: State and municipal levels of government

Source of information: Municipal and state government financial accounts, Fiscal rules and field work (interviews, focus groups).

Diagnostic question: Does the subnational government apply best practices to optimise its budget management in the education sector?

Maturity levels

The subnational government lacks financial management capacity and support from the state government (in the form of transfers or incentives) for mobilising resources for funding education responsibilities up to the needs, partly due to a lack of staff training.	The subnational government is working, jointly with the state government, on strengthening practices for resource mobilisation and budget management, including through new transfer and tax systems, to support the education sector.	The subnational government has the financial management capacity to decide on best practices for financial accounting and budget reporting (including budget methods, budget formulation, budget execution, revenue analysis, as well as strategic planning), and good practices in financial management are reflected in budget strategies and allocation processes.
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Dimension 3: Co-ordination among and across levels of government

Criteria: Vertical co-ordination for policy planning through the Co-ordinated Actions Plans (Planos de Ações Articuladas – PAR)

Unit of Analysis: All levels of government

Source of information:

- Law of the National Education Plan (PNE) (Law n° 13.005/2004) and All for Education Commitment Plan and Co-ordinated Action Plan (PAR) legislation (Decree n° 6.094/2007).
- National Common Curricular Basis.
- National Education Forum (MEC Ordinance n° 1.407/2010).

- Intergovernmental Commission on Financing for Quality Basic Education (arts. 12 and 13 of FUNDEB Law nº 11.494/2007).
- Social Monitoring and Control Councils (CACS Fundeb) (arts. 24 to 30 of FUNDEB Law nº 11.494/2007).
- Ministry of Education information systems, e.g. the SIMEC.
- Field research with interviews and questionnaires to assess the levels of engagement in the participatory planning process.

Diagnostic question: Is the subnational government resorting to Co-ordinated Action Plans (Planos de Ações Articuladas – PAR) as a strategic participatory tool?

Maturity levels

The municipality is not involved in any formal co-ordination platform involving the state and the federal government and has not submitted the PAR.	The municipality participates in co-ordination platforms, including the Co-ordinated Action Plans, on an ad hoc basis.	The municipality co-ordinates effectively with the state/federal levels through formal institutions on a regular basis, culminating with the elaboration of the PAR.
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Criteria: Co-ordination arrangements for financing education projects

Unit of Analysis: All levels of government

Source of information: Law, regulations, and field work (interviews, focus groups)

Diagnostic question: Is the local government engaged in co-financing arrangements with other levels of government?

Maturity levels

The municipality does not participate in any type of co-financing arrangement for service and investment provision in the education sector.	The municipality participates in some co-financing arrangements but these remain non-institutional, and do not involve a redistribution of resources.	The municipality is engaged in institutionalised cooperation and co-financing arrangements with other levels of government, to deliver policy/investments that address local needs, with strong co-operation and redistribution of resources
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Criteria: Horizontal co-ordination for education provision

Unit of Analysis: Subnational governments

Source of information:

- Inter-municipal consortium agreement, if any.
- Educational Development Arrangement, if any (CNE Resolution nº 1/2012).
- Forum of information sharing and peer learning, if any.
- Joint entry exam procedures to hire teachers, if any.

Diagnostic question: Does the subnational government develop mechanisms for horizontal co-ordination for education provision?

Maturity levels

The subnational government is not engaged in horizontal co-ordination for education provision and investment.	The subnational government engages with neighbouring municipalities on an ad-hoc basis to plan and implement education policies.	The subnational government is engaged in horizontal forms of territorial collaboration on education, such as ADE, with concrete results in terms of joint action plans and performance.
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Dimension 4: Capacities and capacity building

Criteria: Municipal strategic capacity to guide education policies

Unit of Analysis: Municipal governments

Source of information:

- Municipal Education Plan, Local Curricular Basis, Administrative Organisation Law.
- Municipal Co-Ordinated Action Plan (Plano de Ações Articuladas – PAR).
- Education Development Arrangement collaboration term, if any.
- State programmes of technical assistance and training.

Diagnostic question: Does the local government have the strategic capacity to set realistic objectives, and develop strategic plans for the provision of education?

Maturity levels

The municipality has low capacity to set realistic objectives and goals over the medium and long-term, and therefore to develop appropriate policies.	The municipality set realistic objectives and goals in line with existing policies, regulatory and legal frameworks.	The municipality has the capacity to set realistic objectives and goals over the medium and long-term for its education policy, and develop and implement appropriate policies and regulatory and legal frameworks.
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Criteria: Digital tools

Unit of Analysis: Local governments

Source of information: Digital Governance Strategy (Decree nº 10.332/2020).

Diagnostic question: Does the local government use digital tools in administrative tasks, education provision and evaluation of educational results?

Maturity levels

The municipality makes no use of e-government tools or new technologies.	The municipality makes exceptional use of e-government tools and new technologies for evaluation of educational results.	The municipality uses e-government tools regularly to simplify administrative procedures for daily work of planning, implementing and evaluation educational policies.
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Criteria: Capacity-building for subnational policies

Unit of Analysis: Municipal level of government

Source of information:

- Municipal training programmes for teachers and professionals in the education sector.
- Education Development Arrangement collaboration term, if any.
- State programmes of technical assistance and training.
- Federal programmes of technical assistance and training, e.g. the Support Programme to Municipal Education Officers (Programa de Apoio aos Dirigentes Municipais de Educação – Pradime).
- PAR Term of Agreement between the municipality and the MEC.

Diagnostic question: Does the local government benefit from capacity building programs targeted to education policies, adequately funded, and planned over the long-term?

Maturity levels

Municipal staff do not receive any type of training/technical assistance from external entities or other levels of government.	Trainings available in the education sector for municipal staff are too narrow and do not meet the needs of the municipality and civil servants.	The municipality relies on capacity-building targeted to education provided by the central and federal levels or external units for technical training of civil servants and the training meets the needs of the municipality and civil servants.
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Dimension 5: Performance and evaluation

Criteria: Outcome-based performance systems for education

Unit of Analysis: All levels of government

Source of information:

- National evaluation system (art. 11 of Law n° 13.005/2014, of the PNE).
- National Policy of Educational Assessment and Evaluation (Decree n° 9.432/2018).
- Local education plans.
- State and municipal information and evaluation systems.

Diagnostic question: Does the performance monitoring system of the local government uses indicators to measure education outcomes?

Maturity levels

There is no mechanism for monitoring the effectiveness of education policy; the municipality only assists in collecting data for the mandatory national indicators.	The municipality has set up basic indicators to monitor the effectiveness of education policy, in addition to the mandatory national indicators.	The municipality has mechanisms in place to monitor and evaluate performance, incorporating output and outcome (results) indicators, with measurable targets/goals.
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Criteria: Guidance documents for rigorous monitoring and evaluation

Unit of Analysis: All levels of government

Criteria description (rationale): Monitoring and evaluation are important mechanisms for accountability and learning; for transferring knowledge among parties and for improving performance by integrating feedback in each policy area. Clear guidance documents should be provided to local governments to set up *ex post* evaluation standards.

Source of information:

- National Policy of Educational Assessment and Evaluation (Decree n° 9.432/2018).
- Guidelines for participation in the SAEB evaluation (INEP Ordinance n° 366/2019).

Diagnostic question: Do local governments have the necessary guidelines and tools for conducting effective monitoring and evaluations?

Maturity levels

The municipalities use traditional government tools related to performance measurement.	The municipality uses ICT/e-government tools for reporting on performance only.	The municipality conducts evaluations based on clear and rigorous standards for measuring and monitoring performance.
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Dimension 6: Addressing territorial inequalities

Criteria: Fiscal equalisation

Unit of Analysis: All levels of government

Source of information:

- 1988 Constitution (arts. 205 to 214), Law of Bases and Directives of Education (LDB) (Law n° 9.394/1996, especially articles 68 to 77) and Law of the National Education Plan (PNE) (Law n° 13.005/2004, especially art. 11).
- FUNDEB Law (Law n° 11.494/2017) and Educational Allowance Law (Law n° 9.424/1996 and Law n° 9.766/1998).

Diagnostic question: Is the fiscal capacity of the subnational government in the education sector equalised based on its fiscal needs?

Maturity levels

There is no equalisation system/The equalisation system does not take into account adequately the fiscal needs of the municipality and state in the education sector.	The equalisation system only partially recognises the fiscal capacity and fiscal need of the municipality and state (based on relevant criteria for the education sector).	The equalisation system efficiently allows the equalisation of fiscal needs of the municipality and state in the education sector.
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Note

¹ All information used in this sub-section was retrieved from: <https://www2.camara.leg.br/atividade-legislativa/comissoes/comissoes-permanentes/ce/audiencias-publicas-1/apresentacoes/apresentacao-lina-katia-ufjf-sistemas-de-avaliacao-da-educacao-basica>.

4 Improving collaboration in the public sector audit system in Brazil

This chapter discusses how co-operation, co-ordination and collaboration among national and subnational audit bodies can lead to coherent, strategic auditing of decentralised policies. It begins by noting the key dimensions of collective action, and goes on to list three types of network governance structure, citing examples as well as the strengths and weaknesses of each. Key operational requirements for the audit network are explored next, with the emphasis on the need for collective understanding of, and agreement on, the network's purpose. Challenges faced by these networks are then outlined, including information sharing versus confidentiality and privacy and differing audit standards and capacities. The chapter concludes by providing details on how an evidence-based risk assessment can be embedded in a collaborative process of audit selection within a network of external audit entities.

Introduction

Given the reality of decentralisation in Brazil, audit bodies of the decentralised audit systems might look for opportunities to work together, in order to deliver to the centre of government and policymakers insights into crosscutting improvements for decentralised policies. If they can work in collaboration on these common areas, not only may they be able to reduce the likelihood of unnecessary duplication of audit work and to improve the audit coverage, but also their work may lead to better audits through exchange of knowledge, ultimately resulting in better insights and a higher impact of audit work.

By improving co-ordination among external audit institutions, supreme audit institutions (SAIs) can help to address the challenges inherent in decentralisation, ultimately improving their added value (OECD, 2016^[11]).

Establish a collaborative network

Collaboration involves multiple actors, who are in one way or another connected to the same issue in a network. By working together in that network, the audit bodies can achieve collective benefit through the pooling of expertise, access and resources while respecting the diverse views, mandates and institutional priorities of their institutions. Any collaboration in a network of external audit entities needs to be carefully designed in order to deliver the expected added value. There are three crucial design challenges that might be considered, further detailed below: the required level of collective action in the network, the required network governance, and the operational design of the network.

Levels of collective action

The terms collaboration, co-operation and co-ordination are often used interchangeably to describe the way individuals or institutions work together. However, there are differences that may help external audit entities understand and decide on what is needed and attainable given their specific context (see Box 4.1 for definitions).

Box 4.1. Three C's of collaboration, co-operation and co-ordination

Collaboration describes the process of facilitating and operating in multi-organisational arrangements to solve problems that cannot be solved or solved easily by single organisations. Together, collaborating organisations produce outcomes or products, and thereby serve their society or clients. For collaboration to work, there must be a high level of trust and engagement and a close relationship among the collaborating organisations, normally including the establishment of shared goals, shared resources, and defined relationships and communications.

Co-ordination consists of organisations working in a concerted manner to achieve a particular goal, providing shared rewards in the long term. It involves some formal and long-term interaction, and facilitates mutual learning, but it does not require, for example, shared resources. Co-ordination requires a medium level of trust and engagement among the partners.

Co-operation is the least formal of the three concepts, and may be established for example on a short-term basis in order to achieve a specific goal. It involves incidental sharing of information and exchanges of resources, without necessarily having mutual goals. It can be ad hoc and requires only a low level of trust and engagement.

Source: OECD elaboration based on (Agranoff and McGuire, 2003^[21]) (Thomson and Perry, 2006^[31]).

The level of collective action among audit bodies in the network is not static. Collaboration, co-ordination and co-operation might coexist in the same network at the same time for different elements of the network activities, depending on the context, the goals of the audit bodies involved, the resources available, etc.

Trust among the network participants is the key driver of the level of collective action that is possible in a network. Trust keeps the network together and it can grow or diminish through further interaction among the partners. The higher the level of trust within the network, the higher will be the level of integration and collective action that can be expected from the network.

When establishing the level of collective action of the network, Brazilian audit institutions might consider the following key dimensions:

- *Trust*, the basic and fundamental dimension – While co-operation does not require trust to be built on a strong basis among the network participants, collaboration does. Trust is not static; it can increase or decrease depending on the experiences of the individuals or organisations in the network over a longer period.
- *Information sharing and communication* – While co-operation does not require formal and ongoing information arrangements, co-ordination does need structured information sharing and communication on the project level. Collaboration needs communication on a strategic and tactical level. The more intense and better the communication flow, the more trust can grow.
- *Sharing of goals, power and resources* – The more integrated the network, the more these elements are shared among the network partners.
- *Commitment and accountability* – Co-operation is possible even if the primary commitment and accountability is to the own organisation, while collaboration requires primarily commitment to the network.
- *Time frame* – Co-operation can work within a short time frame, while co-ordination requires a project-based time frame and collaboration a longer term.

Combining these elements allows the description of a given network, as shown in Table 4.1.

Table 4.1. Co-operation, co-ordination and collaboration: A multi-dimensional model

Co-operation	Co-ordination	Collaboration
Loose connections, low trust	Medium connection, work-based trust	Dense interdependent connection, high trust
Occasional information sharing, ad hoc communication	Structured communication flows, formalised project-based information sharing	Frequent communication, tactical information sharing
Independent goals, adapting to or accommodating other goals. Power and resources remain with parent organisations	Semi-independent goals, joint policies, programmes, aligned resources and power	Negotiated shared goals and programmes, synergised to create something new, shared power and pooled resources
Commitment and accountability to own organisation	Commitment and accountability to parent organisation and project	Commitment and accountability to network and parent organisation first
Relational time frame short	Relational time frame medium, based on priority projects	Relational time frame long term

Source: OECD elaboration based on (Keast, Mandell and (eds), 2014^[4]).

These dimensions can be mixed and matched, and may evolve over time. For example, in Brazil, audit institutions have experienced, to a greater or more limited extent, different ways of working together. Ad hoc initiatives led mostly by TCU for carrying out specific co-ordinated audits might be seen as an example of “co-operation”, given, for example, its relatively short relational time frame and the frequency of information sharing (project-based). Participation in initiatives and projects broader in scope involving structured communication flows and information sharing – such as participation in the National Strategic Information Network for the External Control (*Rede Nacional de Informações Estratégicas para o Controle*

Externo, the Infocontas) could be identified as co-ordinated work experience. Finally, the participation of some TCs in committees or projects with negotiated shared goals, in a relational long-term time frame where the power and resources are shared, such as the Education Committee hosted by the Rui Barbosa Institute, could be an illustration of collaboration (see Box 4.2).

Therefore, with regard to issues or subjects on which TCs have not worked together yet, they might start working on them at a co-operation level but later may express the desire to evolve towards a more integrated network over time. Collaboration might be of particular interest to address the risks of duplication or overlap. For instance, a municipal audit institution and the relevant state audit institution might decide to collaborate in areas where their joint efforts may be of value (e.g. for auditing policies involving both levels of government). In such cases, these institutions would need to implement structures to integrate and improve the frequency of information and knowledge sharing, particularly on the issues affecting both institutions (for example, by applying the methods for audit selection described in Chapter 2). Moreover, they might decide to negotiate shared goals and programmes, based on a relationship of shared power and pooled resources.

Box 4.2. Co-operation, co-ordination and collaboration among Brazilian external audit institutions

Over half of the TCs have established conditions for collaboration, either in their organic laws, in internal rules, or in both instruments. In general, these legal provisions enable the audit institutions to enter into co-operation agreements with the TCU or other audit institutions in order to exchange information, improve the control system and train personnel, as well as to develop joint actions involving, for example, a transferring entity or receiving entity of public resources. Approximately 12 TCs establish specific conditions for signing co-operation agreements, approved by the plenary and/or by the president.

Most TCs have already been involved in initiatives to exchange information between institutions. These initiatives include, for example:

- The aforementioned *Infocontas*
- Public Expenditure Watch (*Observatório da Despesa Pública*)
- The National Network of Public Indicators (*Rede Nacional de Indicadores Públicos – INDICON*).

Education Committee of the Rui Barbosa Institute

The Technical Education Committee of the Rui Barbosa Institute, formed in 2018, has developed several initiatives aiming to induce action to improve public education in Brazil. The Committee is also responsible, for instance, for co-ordinating actions to monitor the goals of the country's National Plan of Education through the platform "TC Educa". The platform presents the Plan's strategic goals and compares the situation in Brazil, the states, the federal district and selected municipalities. The platform also makes this information available to public sector managers.

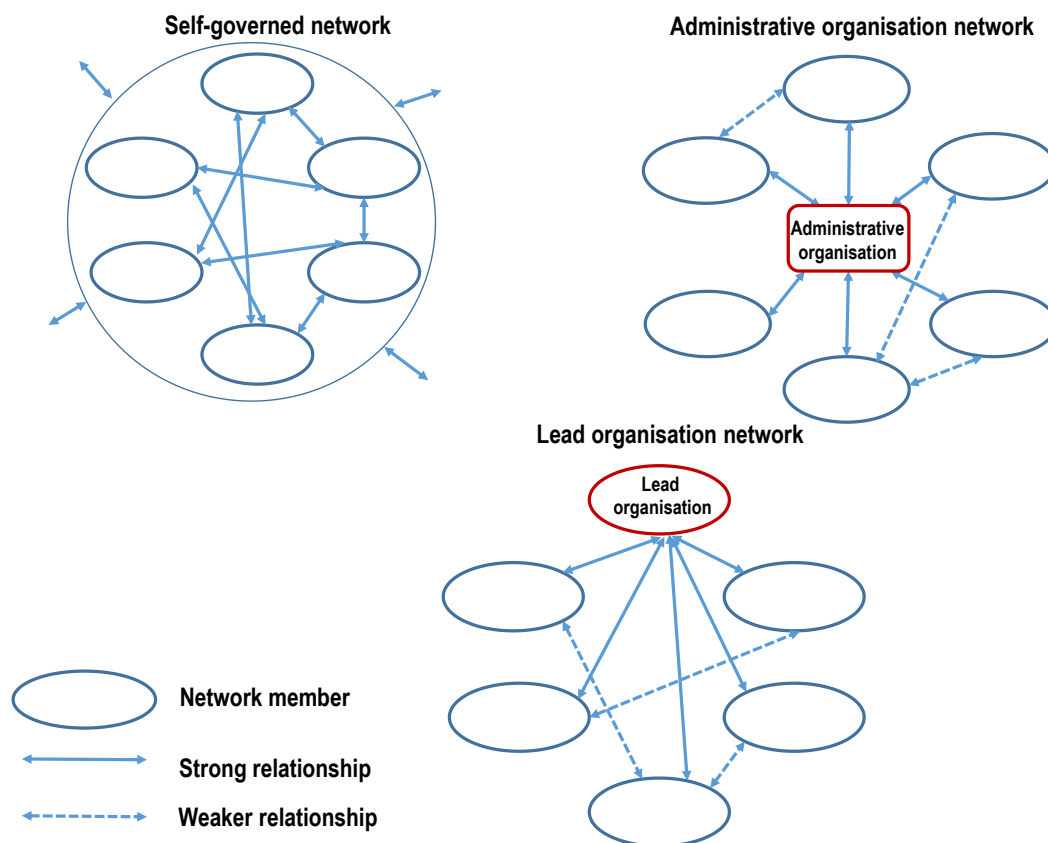
The Education Committee is headed by one president, counsellors from eight courts of accounts and the Secretary for the External Control of Education from the country's SAI. The technical body is composed of more than twenty auditors from the ten participating courts of accounts.

Source: (Instituto Rui Barbosa, 2020^[5]); (Instituto Rui Barbosa, 2020^[6]), TCs' Internal Rules and Organic Laws, as consulted in August 2017.

Network governance structure

For the Brazilian network of audit institutions to be effective and efficient, TCs might think of the governance structure of the network and decide on issues concerning the allocation of responsibility, formalised structures and established processes. Overall, networks might be shaped around three governance structures: self-governed networks, a lead organisation network, and an administrative organisation network (Kenis and Provan, 2009^[7]) (see Figure 4.1).

Figure 4.1. Types of network governance for collaboration, co-operation and co-ordination



Source: OECD elaboration based on (Kenis and Provan, 2009^[7]).

The self-governed network

Self-governed networks are structures in which there is no formal administrative entity governing the network. The network participants manage the network activities and take all decisions collectively. If the network is large, some of the tasks may be performed by a subset of the network participants, e.g. in working groups. The model can be of value when, for example, the active involvement of all participating audit bodies is vital (e.g. when they have complementary audit mandates), and it respond to participants' needs (see Box 4.3 for example). The risk associated with the model is its potential inefficiency, depending on the size and complexity of the network. The model is best suited to small local networks, or to networks in which all the participating audit entities are independent and autonomous and have reasons (e.g. political or institutional) not to delegate decision-making powers to a third party.

Box 4.3. Self-governed networks: The Spanish case

The Spanish Court of Audit (*Tribunal de Cuentas*) and the External Control Bodies of the Autonomous Communities (*Órganos de Control Externo de las Comunidades Autónomas*, the OCEXs) have a legal duty to work in co-ordination, both to avoid duplication in audit actions and to ensure the best impact from the audit work, with the least use of resources.

For this reason, the Court of Audit and the OCEXs systematically maintain co-ordination and co-operation relationships with the purpose of exchanging audit programmes, planning joint actions and establishing common audit criteria and techniques; all the while, each institution safeguards its independence,

For example, the OCEXs will communicate to the Court of Audit issues they detect in their audits that could lead to further audit work by the Court. The collaboration also takes place when the Court of Audit, aiming at greater efficiency, delegates to the OCEXs certain investigative actions in the course of an audit. The collaboration arises from and is generally organised by the members of the audit system.

Source: (Tribunal de Cuentas, 2014^[8]) (Tribunal de Cuentas, 2020^[9]).

The lead organisation network

In this type of network governance, the activities and key decisions are co-ordinated by one of the participating institutions, which acts as the lead organisation. This organisation provides the administration for the network and facilitates the activities of the members in their efforts to achieve the network goals. The model might be suitable in vertical relationships, e.g. in case there is a major funder of the activities, or if one of the network participants institutionally has more decision-making power than the others (see Box 4.4 for an example). The strength of the model is in its potential efficiency and the legitimacy provided by the lead agency. The risks involved in implementation relate to the potential control over the agenda by the lead organisation, and the decrease of interest by the network partners in the network.

Box 4.4. Lead organisation networks: The French case

The regional and territorial chambers of accounts (*Chambres Régionales et Territoriales des Comptes*, CRTCs) were created during the French decentralisation movement in 1982, in light of the financial autonomy granted to the subnational levels in France. In addition to the French Supreme Audit Institution, there are thirteen territorial and regional courts in mainland France and ten courts overseas spread over four locations.

While maintaining their autonomy, the CRTCs work in close co-operation with the SAI through the Higher Council of Regional Courts of Accounts (*Conseil supérieur des chambres régionales des comptes*). For instance, in addition to compliance and financial audits, the CRTCs also participate in the evaluation of public policies implemented locally, for example by carrying out surveys, in close collaboration with the SAI. The management and operation of the Council is led by the SAI, which is also responsible for the financial management of the council, and for assigning the leadership (magistrates) to the CRTCs.

Source: (Cour des Comptes, 2020^[10]).

The administrative organisation network

This type of network consists of a separate entity that is set up specifically to manage and co-ordinate the network and its activities. This might be a dedicated formal entity or association with a mandate and its own budget and structure, **or** an existing entity that is well positioned to take on this role. The strength of the model relates to its potential sustainability, legitimacy and its efficiency. The risks may include the costs and overcomplication of decision-making processes. In addition, some network members may profit from the network without contributing actively to network activities (“free riders”).

Box 4.5. Administrative organisation networks: The Australasian Council of Auditors-General

The Australasian Council of Auditors-General (ACAG) is an association established in 1993 for the sharing of information, experiences and intelligence. Membership of ACAG is open on a voluntary basis to the auditors-general of all audit jurisdictions within Australia, New Zealand, Fiji and Papua New Guinea.

The Council is the supreme authority of ACAG, and consists of all ACAG Members. The Council meets face-to-face at least twice each year. It seeks consensus in its decisions; where this is not the case however, reasons for differing points of view will be clearly documented.

The Council may from time to time, establish specialist subgroups for the purpose of discussing matters of common interest. With respect to such subgroups, the Council may:

- specify in writing the terms of reference and function of the subgroup
- appoint such persons as the Council considers appropriate, including as chair of the sub-group
- determine the frequency and medium for meetings
- receive minutes from the subgroup from each meeting held
- terminate the subgroup at any time.

The Secretariat is the Council’s operational and administrative organ. The executive director is the chief executive officer of the secretariat and is responsible to the executive. The executive director performs assigned duties and responsibilities as directed by Council and the executive committee, and their performance is reviewed annually against a series of agreed key performance indicators. Responsibilities include:

- delivering Council and committee secretariat support services
- stakeholder engagement and relationship management
- developing and maintaining business support systems and records, including the ACAG intranet
- developing, overseeing and monitoring the strategic plan and annual business plans, including operational and project budgets.

ACAG funds consist mainly of membership subscriptions and other financial contributions paid by members. These contributions vary and are proportionally split among members depending on certain criteria (e.g. the size of the organisation).

Source: (ACAG, 2019^[11]) (ACAG, 2017^[12]).

To facilitate co-ordination within the external audit system in Brazil, TCs and their members (e.g. ministers and counsellors) have established a number of critical bodies, such as the Rui Barbosa Institute (IRB) and the Association of the Members of the Brazilian Courts of Accounts (ATRICON), which may be considered administrative organisation networks. Each institute has specific mandates, but also complementary activities (see Box 4.6).

Box 4.6. Brazilian administrative organisation networks

Rui Barbosa Institute (IRB)

The IRB is a civil association created in 1973 with the goal of improving the activities carried out by TCs. The IRB is considered the “academic arm” of the external audit system in Brazil, due to the events, seminars, congresses and publications for which it is responsible.

To achieve its statutory purposes, since 2015 the IRB is administratively structured into five directorates (*vice-presidências*):

- Institutional Relations, which aims to establish national and international partnerships to develop projects or actions.
- Institutional Development, which aims to develop co-operative and network actions for various areas of work of the courts of accounts, such as ombudsman, internal affairs, libraries, secretaries of external control, communication advisory, IT management for the courts, etc.
- Auditing, which is responsible for translating into Portuguese the international auditing standards, publishing the Brazilian Public Sector Auditing Standards, and assisting the courts in implementing these standards.
- Public Policies, which aims to provide support to improve the audit of public policies, including by indicators, with emphasis on the municipal management efficiency index - IEGM and the state management efficiency index - IEGE.
- Capacity Building and Research, which develops training activities to disseminate and share knowledge and capacity.

In addition to the directorates, the Institute organises and co-ordinates different thematic committees, such as the committees on auditing standards, capacity building, human resources, TC governance, education, public policy evaluation and information technology.

Finally, IRB co-ordinates other networks, groups and projects that might be headed by one of its committees or directorates. One example is the Programme for the Modernisation of the External Control System (*Programa de Modernização do Sistema de Controle Externo*, PROMOEX).

The membership to the Institute is voluntary, and to date most TCs are members. The members finance the association’s activities by means of an annual contribution. The main objective established in the IRB Strategic Plan for 2018-22 is to promote integration of the audit work of TCs in order to strengthen them institutionally.

The Institute is thus responsible, for example, for translating and adapting INTOSAI audit guides and standard rules into Portuguese and to the Brazilian context. Such efforts aim to promote the harmonisation of the audit practices adopted by the Brazilian audit institutions. The Institute also intends to consolidate the different capacity-building initiatives launched by the TCs, particularly the e-learning courses. To date, over 400 initiatives have been consolidated and shared on the Institute’s website. Moreover, the Institute is currently developing a “talent pool”, which will aim to facilitate the connection of auditors from different TCs to participate in trainings and secondments.

The TCs choose the IRB presidency through elections that take place every two years. The Institute does not employ any personnel directly; therefore, the elected presidency is responsible for allocating staff for the directorates, committees and relevant activities.

Association of the Members of the Brazilian Courts of Accounts (ATRICON)

ATRICON was created in 1992 with the aim of promoting the improvement and integration of the Brazilian courts of accounts and their members (ministers, counsellors, substitute ministers and substitute councillors). For that, the entity promotes and encourages the exchange of information and experiences among members of TCs, while supporting the development of strategies and tools to improve the effectiveness of the public administration's control systems

Elected every two years, the ATRICON board selects strategic goals and actions, establishes partnerships with other institutions, and organises debates and national events. One of the association's projects is the Quality Assessment of Courts of Accounts, which aims to measure the quality and agility of the Brazilian courts. Through the project, 28 out of the 33 courts of accounts were assessed in 2013 by means of peer reviews. The performance measurement was based on parameters set in ATRICON external control guidelines and in ISSAIs. The final report does not address or provide individual recommendations to the courts of accounts, but offers a high-level overview of the Brazilian external control system.

The association also supports IRB activities, and both institutions have the power to leverage and scale up the individual initiatives of TCs. For that to be possible, one of the ATRICON goals set in its strategic plan of 2018-23 is to ensure, until December 2023, the support of ATRICON in 100% of the activities involving production and dissemination of technical expertise held by the IRB.

Similarly to the Rui Barbosa Institute, the ATRICON board is elected by its members every two years. The board is responsible for allocating staff to perform the association's activities, as it does not employ any staff directly.

Source: (Instituto Rui Barbosa, 2018^[13]) (ATRICON, 2018^[14]) (ATRICON, 2020^[15]) (Instituto Rui Barbosa, 2020^[16]).

Each type of network governance has its strengths and weaknesses (see Table 4.2). The most suitable network governance model depends on the purpose, needs, goals and capacity of and partners in the network at a given point in time. In reality, mixed governance structures may be applied and the appropriate model may evolve over time, depending on changes in context and in requirements. Regular monitoring and evaluation of the network may reveal the need for adaptation on a timely basis.

Table 4.2. Risks and strengths of network types

	Strengths	Risks
Self-governed network	Involvement and active participation of members, responsiveness	Inefficiency
Lead organisation network	Efficiency, legitimacy	Loss of cohesion, multiple agendas
Administrative organisation network	Sustainability, legitimacy	Bureaucracy, costs, free riders

Source: OECD elaboration based on (Kenis and Provan, 2009^[7]).

In Brazil, unlike the case of Spain, France and Mexico (as seen in Box 4.3, Box 4.4 and Box 4.9 respectively), to date audit institutions have no legal obligation to work in collaboration. Moreover, unlike other areas of the Brazilian public administration – and despite being object of certain bills to amend the Constitution (mainly the PEC 28/2007) – the Brazilian audit institutions do not have an institutional “national council of the external control”. Such organisation could guide, inform and co-ordinate the activities and priorities of the institutions, as well as issue rules to harmonise practices (see Box 4.7 for examples of existing councils).

Box 4.7. Brazilian national councils – Examples

National Council of Justice

The National Council of Justice (*Conselho Nacional da Justiça*, CNJ) was created by Constitutional Amendment No. 45 of 2004 and installed on 14 June 2005, under the terms of art. 103-B of the Federal Constitution. The Council is a body of the judiciary, headquartered in Brasília, and is composed of fifteen members, each with a term of two years. Its members include the president of the Supreme Federal Court, members of public prosecutor’s offices, lawyers and citizens.

The CNJ issues normative acts and recommendations for its members, and approves the judiciary’s strategic planning, taking into account its objectives, goals and institutional evaluation programmes. It also aims at promoting efficiency, by disseminating best practices and carrying out analysis, statistical reports and indicators relevant to jurisdictional activity in the country. Finally, the Council receives and decides on complaints against the members or bodies of the judiciary.

National Council of Public Prosecutors

Similar to the CNJ, the National Council of the Public Prosecutors (*Conselho Nacional do Ministério Público*, CNMP) was created in 2004 by Constitutional Amendment No. 45. The Council was installed in 2005 and is headquartered in Brasília. The body is formed of 14 members of different public prosecutors offices, at the federal and state levels of government, in addition to citizen representatives and representatives of other sectors of society. Overall the CNMP is responsible for holding public prosecutors accountable for their acts, but it also aims at establishing a national strategy for the Brazilian public prosecutors offices.

National Council of Internal Control

Unlike the CNJ or the CNMP, the National Council of Internal Control (*Conselho Nacional de Controle Interno*, CONACI) was not created through a constitutional amendment or law. It was created in 2007 to promote and strengthen public sector internal control in Brazil, through representation, integration and institutional advice, and by increasing transparency, strengthening social control and providing effective public service.

A forum, a presidency, an executive secretariat and working groups form the Council, among others. The forum is the highest body of the Council, having deliberative and normative powers, and is composed of members of the internal control bodies at all levels of government. It has the mandate to formulate the general policy of the Council, set the guidelines and priorities, decide on the work plans and respective budgets, and elect the presidency.

Source: (CNJ, 2020^[17]) (CNJ, 2020^[18]) (CNMP, 2020^[19]) (CONACI, 2015^[20]).

One option is that the Brazilian audit institutions could advocate for the creation of a new administrative network that could take the form of a national council. The council could have the mandate to promote best practices among audit institutions, define strategic planning for the whole system, co-ordinate, disseminate and leverage individual initiatives, avoid duplication and gaps, etc.

As a first action, or until the network takes the form of an institutionalised council, the audit institutions could prioritise measures to strengthen the existing associations, mainly ATRICON and the Rui Barbosa Institute. For example, they could:

- promote dialogue among audit institutions for the adoption of international audit standards that are reviewed and published by IRB
- in order to avoid duplication of actions, classify each of the existing initiatives (committees, working groups, networks) and allocate them to one specific vice-presidency, which could be responsible for the continuity of each activity
- work to assure the continuity of the activities of the associations, or think of solutions for the mitigation of risks such as the lack of future leadership
- promote dialogue with the courts of accounts to decide on the actions for further improvement of the association.

The networks' operational design

Networks might consider how they operate. Crucial elements include understanding of the network's purpose and essential needs and when to change earlier choices, depending on the evolution of the network (described in the previous section and Box 4.8). These questions should be addressed at the establishment of the network and readdressed at significant transitions in the network's life (Plastrik, Taylor and Cleveland, 2014^[21]).

Box 4.8. Key network operational requirements: A checklist

Answering the questions below will help establish a shared vision among the network members and the networks' value propositions, i.e. the specific benefits that network members will realise by participating in the network. The questions are also intended to make clear what resources are needed and where they are to come from; to define the lines of decision making and responsibility; and to establish a monitoring structure that will allow the members to make decisions on the network's strategic direction.

1. *Purpose* – What is the network's reason for being? Why do members allocate time and resources to the network?
2. *Membership* – Who is eligible to become a member? What are the membership requirements? How many members will there be?
3. *Value propositions* – What will be the benefits of membership— for individuals and collectively?
4. *Co-ordination, facilitation, and communication* – How will network members link up and work with each other? What procedures and methods will the network use to co-ordinate and facilitate the members' work? Three main co-ordinating tasks need to be taken into account in the responses:
 - a. Logistics: setting up meetings, conference calls and other ways members can engage with each other; creating and distributing essential information such as a directory of members and contact information.
 - b. Operations: external communications; facilitating meetings and group processes of members; managing an archive of network documents; controlling the network's finances; managing or bringing on board new members of the network.
 - c. Strategic management: a higher level of responsibility focused on helping the network members, especially those with governance duties, to make and implement decisions about the network's development. Managing relationships with outside partners and funders, supporting members who are undertaking initiatives for the network, and creating and modifying network plans.
5. *Resources* – What budget does the network need in order to achieve its goals? What is the network's funding model?
6. *Governance* – Who decides what the network will do, and how do they decide?
7. *Assessment* – How will the network monitor its condition and performance?

Source: OECD elaboration based on (Plastrik, Taylor and Cleveland, 2014^[21]).

Regardless of the form of the network in Brazil (e.g. a national council; a lead organisation; or a strengthened existing administrative network), the audit institutions must debate and decide on the key operational design in order for the collaboration to be effective.

Most importantly, TC leadership must agree on the purpose of the network and therefore, must understand and be convinced of the added value of the collaboration. For this, all prospective members of the network should be consulted, for instance through a series of (video) conferences or a survey among members of the courts of accounts, to share their ideas about the values and purpose of the network. If existing networks are used, such as IRB and ATRICON, an option is to involve representatives of each court of accounts in the development of the strategic planning (see Box 4.10 and Box 4.14 for examples).

Ways to communicate among network member institutions and auditors might be designed in a way that supports the purpose of the network. For example, if the network intends to reduce duplication and overlap

of audit activities performed by the TCs, it could adopt a channel for the consolidation, analysis and classification of such activities. In this sense, the network could draw inspiration from Mexico and Argentina (Box 4.9) and work towards the integration of the audit plans of all TCs. If the network has the ambition to collaborate in selecting and planning audits, an IT system such as the one detailed in Chapter 2 could aggregate and organise the information about auditees, policies being audited, etc. The system could also consolidate the findings of the audit institutions, which could in turn facilitate following up on the audit recommendations. Moreover, the network could think of measures to preserve its legacy, for example by implementing and managing an official archive of its documents.

Box 4.9. Information sharing in a network of audit entities: Examples from Mexico and Argentina

Mexico

The General Act of the National Anti-corruption System (LGSNA) from 2016 created the National Auditing System in Mexico (*Sistema Nacional de Fiscalización*, the SNF), chaired by the Supreme Audit Institution (SAI) of Mexico (*Auditoría Superior de la Federación*, the ASF) and the Ministry of Public Administration (*Secretaría de la Función Pública*, the SFP). The system establishes the co-ordination mechanisms among the bodies responsible for governmental auditing tasks in the different levels of government, with the objective of maximising auditing coverage and impact throughout the country.

The LGSNA mandates the development of an electronic system (*Plataforma Digital Nacional*) intended among other objectives to extend the coverage and impact of the auditing of federal and local resources. In order to meet the legal requirement, a working group was created in 2018 within the SNF, for the implementation of a virtual platform. The platform is still under development; it will consolidate the annual programmes of the audit bodies at the three levels of government and enable the sharing of databases among SNF members.

Argentina

The Federal Network of Public Control (*Red Federal de Control Público*) was created in 2002, when an agreement was signed between certain government internal and external control bodies and the main internal audit body in Argentina, the Comptroller General of the Nation (*Sindicatura General de la Nación*, SIGEN).

SIGEN shares with the network financial information about federal investments and transfers made to the municipalities and provinces participating in the network, which would not otherwise be disclosed or easily accessible. Additionally, based on a risk matrix prepared by SIGEN, members of the network select issues and programmes that they could potentially audit. These issues are then shared with other members.

SIGEN also collects reports issued by subnational audit bodies and consolidates all the findings. These findings are subsequently presented by SIGEN to the centre of government in biannual meetings.

Source: (Cámara de Diputados del H. Congreso de la Unión, 2016^[22]) (SIGEN, 2020^[23]).

Through the network, the audit institutions could adopt one official external control calendar, with the official events organised by the different courts and associations (e.g. events hosted by the courts of accounts, IRB, ATRICON, the National Council of the Presidents of the Courts of Accounts, the Brazilian Association of Municipal Courts of Accounts – ABRACOM, etc.)

The network might be funded by a fixed annual fee paid by its members –like the IRB funding structure – or could take the form of a fee that might vary depending on certain criteria (e.g. size categories of

members), such as the ACAG funding structure (Box 4.5). Alternatives for funding the structure might include calculating the reduction of costs for the audit institutions due to joint or co-ordinated audits, which could be allocated by the relevant courts to the network.

The network must think about its governance structure strategically, i.e. who will make decisions and how. For example, under the current structure of IRB, TCs choose the presidency every two years. Other possibilities include a governance model consisting of an assembly and a board, the former composed of one or two representatives of each TC (e.g. the president and one auditor, or the secretary-general for the external control), who could elect a board that would have some decision-making powers. The network could also establish an advisory committee that included the participation of citizens and auditees. Other independent committees could be established in order to manage and co-ordinate specific subjects, such as the committee for audit selection (further described in the next section of this chapter).

In any case, network members need to evaluate the adequacy of the governance model – including the term of the mandate, and consider if such mandate should be extended for the purpose of continuity of actions, for example. This might be part of a mechanism to assess the network’s performance and adequacy. For example, the presidency or the board might be responsible for delivering an annual report of activities around the strategic objectives of the network (see Box 4.10 for an example of interactive reporting of activities).

Box 4.10. Brazilian National Council of Internal Control’s strategic planning

The National Council of Internal Control has approved its strategic planning for the years 2019-21, consisting of seven strategic objectives and thirty specific actions. Specific goals and the relevant indicators for measuring each goal accompany each objective.

For example, Objective 1 consists of “Contribut[ing] to the good governance of the Public Administration, promoting the fight against corruption, integrity, transparency, efficient management of public resources and social control”.

Table 4.3. Indicators and goals accompanying CONACI Objective 1

Indicator	Goal
1. Percentage of the bodies with the infrastructure defined in the Objective 2 of the Council	1. To increase by 10% the number of bodies with the necessary infrastructure
2. Percentage of members developing social control initiatives	2. To have 30% of the members of CONACI develop initiatives of social control by December 2021
3. Percentage of members that have implemented an integrity programme	3. To have 30% of the members implement an integrity programme by December 2021

In order for the goals to be achieved, the Council has decided on specific actions for each objective – for example, four actions have been assigned to Objective 1. Each action is led by a manager and is performed by certain individuals among the different Council members. The manager’s contact information as well as information about the participating individuals, including their photos and emails, is publicly available on the strategic planning website. The interactive website also displays the indicators, the progress of each goal and objective, and the activities of the managers and other individuals working to achieve the goals.

Source: (CONACI, 2019^[24]).

Challenges for audit networks

While working together in a network might benefit from the ability of TCs to address issues associated with the audit of decentralised policies and multi-level governance, audit networks also face specific challenges. When using the work of other auditors at state, provincial, regional, district or local level, or of public accounting firms that have completed audit work related to the audit objective, audit institutions should make arrangements to ensure that any such work was carried out in accordance with public sector auditing standards (INTOSAI, 2013^[25]). Other specific challenges include:

Confidentiality and information sharing

When working together in a network, TCs might share information, analysis and conclusions obtained throughout their work. Therefore, the exchange of information must be given particular attention and the network entities must consider and observe the internal provisions of each participating institution regarding confidentiality and privacy issues. For example, it might be necessary to enter into confidentiality agreements to address the specific concerns and particularities of each TC involved. This is for instance the case in the European Union, where these restrictions apply to exchange of information between the European Court of Auditors and the SAIs of the Member States. In some cases, a “single audit” agreement might facilitate the exchange of information within the network. See Box 4.11 for an example from Belgium.

Box 4.11. Single audit principle and the exchange of audit information: The case of Belgium

The Belgian Court of Audit is mandated to audit the Federal State, the Communities and Regions and the provinces. The SAI is not entitled to audit municipalities; at that level, the *Audit Vlaanderen* is the external audit body for the Flemish municipalities and the *Centre Régional d’Aide aux Communes* for the Walloon municipalities.

At the Flemish (regional) level, in order to reduce the burden for the auditee and to improve the quality of the audits, the SAI, Audit Vlaanderen and certain internal audit bodies have reached agreements for adoption of the “Single Audit Principle”. The principle consists of promoting a single audit model for the Flemish authority, where each level of control and audit builds on the previous one, aiming to reduce the burden on auditees and avoid overlaps.

The participating entities share their risk assessments of the auditees and co-ordinate their audit planning. They also meet periodically in a steering committee for single audit. The entities have also entered into the Annual Agreement Memorandum for auditing the annual accounts, which provides mechanisms for sharing information. The memorandum, signed by the Flemish Minister of Finance, the Belgian Institute of Registered Auditors, and the SAI, establishes the minimum requirements to be respected by the auditors. For example, it exempts the audit institutions from the secrecy obligation of the statutory auditor if:

- the information is exchanged on audit strategy and planning, on risk monitoring and analysis, on control and reporting and on control methods concerning entities of the Flemish authority under their common area of control
- the transmission of information from the work documents of the statutory auditor concerning entities of the Flemish authority is subject to the single audit principle.

Source: (Belgian Court of Audit, 2015^[26]) (Belgian Court of Audit, 2009^[27]) (Accountancy Europe, 2019^[28]).

Different audit standards

Brazilian audit institutions must exercise caution about the use of different audit standards. In that regard, adoption of the international standards translated and adapted by IRB might be of use as the common ground. Moreover, if the network decides to consolidate information from audits coming from different audit institutions, it should be aware that audit criteria, e.g. for compliance, may differ among jurisdictions. Finally, the network may also need to take into account differences in budget and audit cycle timing among participating network institutions. Some countries are implementing measures to overcome these challenges through capacity building and harmonisation of practices among audit institutions (see Box 4.12 for examples).

Box 4.12. Capacity building and harmonisation of audit standards

Lithuania

In Lithuania, local auditors need to apply the audit methodology that is prepared and used by the National Audit Office. Additionally, the SAI annually assesses the quality control system developed by the local auditors and the quality of the audits. The results of the assessment and suggested recommendations are submitted to the local audit institutions. Common audits carried out together with local audit institutions are also considered as an element of the capacity building system.

Mexico

In Mexico, the National Auditing System (*Sistema Nacional de Fiscalización*, the *SNF*), chaired by the Supreme Audit Institution (SAI) of Mexico (*Auditoría Superior de la Federación*, ASF) and the Ministry of Public Administration (*Secretaría de la Función Pública*, SFP), has been working to advance capacity building and harmonisation of audit standards.

The General Act of the National Anti-corruption System (LGSNA), from 2016, states that procedures, techniques, criteria, strategies and professional standards in Mexico's public sector audit field shall be harmonised. This work is facilitated by ASF at the federal, state and municipal level.

Source: (EUROSAI, 2018^[29]) (Sistema Nacional de Fiscalización, 2020^[30]).

Different capacity

It is not likely that the different audit institutions will have the same capacity, given the different size of their structures and budgets. Moreover, Brazilian audit institutions have different focuses and priorities in terms of types of audit, particularly regarding performance audit (i.e. some audit institutions are not used to carrying out these audits, while others have more experience with it). Therefore, if the network requests the joint and collaborative work of the audit institutions, it is necessary to take the different capacities into account. For example, when carrying out a co-ordinated activity, one audit institution might be responsible for a more limited activity, given its more limited resources. These cases might be an opportunity for the organisations with more (experienced) staff to help build capacity among the other audit institutions. Another example could be of expertise – for instance, one audit institution that is used to audit environmental issues due to its geographical location might be able to share its expertise with other audit institutions that are less knowledgeable about these issues.

Lack of institutional commitment

Unlike other countries, in Brazil the audit institutions do not have any institutional or legal obligation to collaborate among themselves. Therefore, unless there is a change in the legal framework, the collaboration will be voluntary, including the buy-in of all the courts at the leadership level. Any difficulties in obtaining such commitment might compromise the continuity of the network's activities. Thus, Brazilian audit institutions must pay particular attention to this issue and engage their efforts for the involvement of management at all the institutions involved.

Develop procedures and mechanisms for collaborative selection and alignment of audits

As seen above, a network might draw upon the audit capacity of each external audit body, individually and collectively, by sharing knowledge among the network members and working together strategically. One powerful way to generate constructive collective action within the network, with the potential for greater impact, is through strategic collaboration on the selection of audits. Chapter 2 described the approach for developing an evidence-based risk assessment for the selection of audit topics. This section provides details on how this approach can be embedded in a collaborative process of audit selection within the network of external audit entities.

TCU and TCs have made concrete efforts to co-ordinate their oversight capacities, including carrying out co-ordinated audits (see Box 4.13 for examples) and capacity building using the ATRICON and the Rui Barbosa Institute as platforms. To date, the co-ordinated audits are usually led by TCU, which selects the topics and engages the participation of TCs in the audits.

The efforts towards collaborative work were also translated into co-operation agreements among TCs, such as:

- The Amazon Charter (2010) and the Belém Declaration (2011), both of which proposed the continuous exchange of knowledge and the execution of performance audits with an emphasis on environmental issues
- The Campo Grande Declaration (2012), which proposed co-ordinated audits in education and health
- The Vitória Declaration (2013), which was intended to guarantee technical and institutional support for co-ordinated audits
- The Declaration of Fortaleza (2014), which reinforced the pact to develop co-ordinated audits to evaluate effectively and systematically the results of public policies.

Additionally, some TCs, such as the TCE-Rio Grande do Norte, and the TCU have agreements in place containing general terms of co-operation among the courts. Overall, these agreements do not intend to regulate one specific co-ordinated audit; they set forth, for example, that the courts must include in their audit programming the control activities resulting from the co-operation. The contracts might also establish that one court, notably the TCU, must inform the other court about any federal resources transferred to entities of the relevant level of government (e.g. the State of Rio Grande do Norte and its municipalities), as these transfers might be subject to oversight by both TCs.

Despite these initiatives, to date TCs have not implemented methods or a network to decide on systemic or common issues, including the common selection of co-ordinated audits. Moreover, in general, most TCs do not have any mechanism or co-ordination process in place intended to clarify or define their responsibilities and mandates, or to avoid duplication, fragmentation or overlap of activities.

Box 4.13. Co-ordinated audits in Brazil

Co-ordinated audit to assess management of primary healthcare

In 2014, 30 Brazilian courts of accounts carried out a co-ordinated audit to assess the quality of the management of primary healthcare at the federal, state and municipal levels. Among other reasons, primary care had been chosen, to be the core of the country's health system. The work was performed by 119 auditors from all participating courts of accounts, who visited 317 municipal health secretariats and 23 state health secretariats across the country.

The audit reports issued by the courts of accounts resulted in recommendations and action plans that have been discussed with public managers. The action plans were then used by the courts of accounts to carry out follow-up audits.

Co-ordinated audit for the assessment of public schools' infrastructure

The TCU and nineteen courts of accounts of states and municipalities have visited 679 public schools in the different regions of the country and have conducted a co-ordinated audit to assess the quality and availability of the infrastructure of these schools.

The assessment of schools resulted in the index "Average Score of the School Infrastructure", which classifies the schools' infrastructure as good, acceptable, bad or precarious, taking into account both the availability and the conservation of the facilities. With the results of the audit, the participating audit institutions could conclude, for example, that the majority of the schools classified as precarious and bad were located in the same regions: the north and northeast of the country.

Based on this work, TCU has decided to recommend that the Ministry of Education improve policies relating to support for the infrastructure and the provision of equipment for basic education, with particular attention to the country's regional disparities. TCU has also recommended that the Anísio Teixeira National Institute of Educational Studies and Research – INEP – improve the data collection process of the School Census.

Co-ordinated audits with other supreme audit institutions

In 2016, under the co-ordination of the TCU Education Secretariat (SecexEducação), TCU and ten other supreme audit institutions (from Chile, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Mexico, Panama and the Dominican Republic) carried out a co-ordinated audit that aimed to evaluate:

- the adoption of international good practices by administrative units responsible for generating educational statistics

- the capacity of governments to produce statistics to monitor the education systems in each country; the delivery of data and indicators to international organisations

- the progress of countries regarding Goal 2 of the Millennium Development Goals and the targets of the UNESCO Dakar Framework of Action on Education for All.

The criteria applied were based on the Code of Good Practices and Regulation 223/2009 of the Statistical Office of the European Union (Eurostat), considered as a practical tool to ensure consistency, comparability and quality of educational statistics produced by the countries.

Source: (OLACEFS, 2016^[31]) (TCU, 2015^[32]) (TCU, 2016^[33]).

In order to increase the synergy and impact of the work among the Brazilian audit institutions, they might develop procedures and mechanisms for collaborative selection and alignment of their audits. Unlike the current co-ordinated audit selection processes, mostly led by TCU, the alignment of audits of decentralised policies might involve all stakeholders. For that to be possible, TCs could benefit from the work of the network. As seen throughout this chapter, it is recommended that the Brazilian audit institutions either establish a new network or improve the existing structures. Either way, the chosen network could dedicate specific efforts to the collaborative selection of audits. These efforts could take the form of a vice-presidency or a committee, with a dedicated team to ensure the activities' continuity.

For example, the committee could be allocated at one existing committee of IRB, or could be an extension of the Integrag Project (the OECD-TCs project leading to this publication). Building on the knowledge of Integrag Project, the project's structure could be adapted to be the basis of the committee for collaborative audit selection. The committee, which might have decision powers related to its activities, could eventually be within the IRB (or other existing network) structure, or within the structure of a future national council or network.

Define the collaborative selection of audit as a strategic objective of the network

The development of strategic objectives for audit networks might encourage the appropriate participation of the network members. When drafting strategic objectives, one option is to assign to a small committee primary responsibility for drafting the strategy document and granting the committee a reasonable degree of autonomy in developing the draft; the committee would be composed of representatives from (some or all) network members. Including a broad range of voices in the development process can help build a common vision and increase the legitimacy of the strategy, and hence augment support for it within each audit institution and in the wider society (OECD, 2020^[34]) (see Box 4.14 for an example of a network's strategic plan).

Box 4.14. Strategic Plan of the Australasian Council of Auditors-General, 2019-22

The audit institutions comprising the Australasian Council of Auditors-General have agreed on a set of strategic objectives to be achieved by the network from 2019 until 2022. The strategic plan is based on four key objectives:

1. *Knowledge sharing and collaboration* – Encourage co-operation and collaboration through knowledge development, sharing and services
2. *Collective voice* – Identify and collectively respond to emerging issues on a national and international level
3. *Capability development* – Support ACAG members in developing the capacity to maximise their value and benefits
4. *Maximise the value of ACAG as an organisation* – Organise and govern ACAG in a way that promotes economical, efficient and effective working practices, timely decision making, and effective governance practices, while maintaining due regard for jurisdictional independence.

Each objective is composed of two or three strategies, followed by specific actions and deadlines for achievement. For example, one strategy for achieving the “collective voice” objective is “to provide a trusted and collective voice on areas of public sector auditing”. Such a strategy will be achieved by actions that include exploring the feasibility of undertaking a collaborative (co-operative) audit. Other actions provided for in the plan include:

- facilitating exchange programmes among audit office staff to maximise secondment and other resourcing opportunities
- sharing audit methodologies and toolsets while recognising the independence of each jurisdiction to adopt their own methodology
- ensuring partnerships and twinning arrangements are developed and implemented
- supporting and promoting peer-to-peer co-operation among ACAG members in support of organisational capacity development (for example, peer and quality reviews)
- undertaking a review of agreed measures to inform benchmarking among ACAG members
- ensuring that each network sub-group produces an annual work plan and reports biannually to ACAG on progress in relation to the plan.

Source: (ACAG, 2019^[11]).

Among the strategic objectives of the network, there should be the collaborative selection of audit topics and alignment of audits. The strategic objective might accompany specific activities aiming to obtain the commitment from all audit institutions to participate in the network’s strategic audit programming process. This commitment could be formalised by the participation of at least one representative from each audit institution in the audit selection committee.

Develop a shared approach for prioritisation of audits

The audit selection committee might be responsible for the strategic audit programming process, an opportunity for the members of the committee to discuss and agree on which audits can be pursued by the audit institutions, jointly or collaboratively. This exercise would allow both the committee and each participating audit entity to consider the topics that, within their jurisdiction, may have the biggest impact, while taking account of the audit capacities available (e.g. human resources, professional skills and internal structures). During the process, the committee’s participants might apply the methods described in

Chapter 2 related to evidence-based audit selection in decentralised policy areas in order to identify the major fields of action that might require joint efforts.

During the shared audit programming exercise, the committee must consider that the Brazilian audit institutions have in place their own audit practices and ways of working, including their own mechanisms for selecting audits and multi-year audit programming. However, to the extent that the committee might use the methods described in Chapter 2 for selecting collaborative audit work, the methods should not supersede the existing individual audit programming of each audit institution. Nonetheless, for alignment of audits to be possible, the committee (or the network hosting the committee) could advocate before its members that audit institutions dedicate some staff and resources of their institutions to aligned audit programming and joint audit work.

Following application of the methods for evidence-based audit selection – and once the major fields of action are defined, taking into account the objectives of the network – the process for selecting objects of audit can be more focused, leading to the scrutiny of sector information on government actions against selection criteria.

It may therefore be useful for TCs to answer a set of questions that may help prioritise the proposed audit topics in the committee's deliberative selection process, such as:

- *Strategic considerations* – Does the topic match with the strategic objectives of the network? Is the topic important to citizens and governments at the relevant levels?
- *Political and societal context* – Is the topic considered urgent for all involved audit institutions, given the political and social contexts? Have the governments involved made commitments around the topic and do they have plans to meet them?
- *Multi-level context* – Is working together among multi-levels of government necessary to achieve the commitments or plans around the topic?
- *Impact* – Will the audit potentially make a positive difference? Will there be pressure for auditees to follow up on the recommendations?
- *Materiality* – Does the audited activity or programme have potentially significant financial, economic, social or environmental management implications?
- *Auditability* – Can the audit be carried out with resources that match the impact and materiality of the topic?
- *Added value to the network* – Will the network leverage the impact?

To answer these questions the committee might consider not only the results of the evidence-based audit selection in decentralised policy areas, but also other information exchanged by the audit institutions in the network. For example, the committee should have access to and make use of mechanisms implemented by the network to ensure persistent knowledge sharing among audit institutions (as described in the section above).

Finally, a deliberative process with the participation of the committee members may be implemented to define shared audit programming, which could summarise all planned and announced audit activity to be undertaken jointly by the committee's members (see Box 4.15 for example).

Box 4.15. Shared risk assessment: The case of Scotland

Audit Scotland works with other scrutiny bodies in that country through the Strategic Scrutiny Group (SSG), to make sure the scrutiny of public sector bodies is well co-ordinated, targeted and proportionate in relation to identified risks. The SSG is convened and chaired by the Accounts Commission and is supported by the Operational Scrutiny Group, whose purpose is to develop and support delivery of a co-ordinated scrutiny plan and opportunities for collaborative scrutiny.

The SSG work is underpinned by the obligations of the Public Service Reform (Scotland) Act 2010 and by the five principles of scrutiny:

- public focus
- independence
- proportionality
- transparency
- accountability.

In 2008, the SSG established a shared risk assessment process as the vehicle for scrutiny bodies to exchange intelligence and agree scrutiny risks in each of the 32 councils in Scotland. The process has been successful in providing a focus for scrutiny bodies to work more closely together and for more co-ordinated engagement between councils and scrutiny bodies. The process is based on the following principles:

- *An open and trusting culture* – Scrutiny bodies shall share information about risks and planned work with other scrutiny bodies. There should also be an open and transparent relationship with councils wherever possible.
- *A focus on best value and best use of resources* – Scrutiny bodies must work to avoid duplication and should be aware of the impact of the group’s work on the public, the services they receive, local authorities, and other scrutiny bodies.
- *Better planning* – Scrutiny bodies shall be mindful of planning time frames so that they can meaningfully share plans with other scrutiny bodies and with local authorities.
- *Embedding* – There should be a collaborative assessment of scrutiny risks within existing systems, processes, and bureaucracy. This includes engagement with local authorities. This principle also means that the process should be ongoing rather than starting and stopping at one point in the year.

The output of the shared risk assessment process is the National Scrutiny Plan. The latest plan summarises all planned and announced strategic scrutiny activity to be undertaken by the SSG members from September 2019, in each of the country’s councils. The plan highlights the range and nature of scrutiny to be carried out during the year. Given the focus on a risk-based and proportionate approach, scrutiny activity can also change during the year, particularly in response to any significant risks or events that require immediate investigation. Therefore, to ensure that the National Scrutiny Plan keeps abreast of developments and is comprehensive, the SSG updates it on a six-monthly basis in response to any significant changes in scrutiny activity.

Source: (Scotland Strategic Scrutiny Group, 2019^[35]) (Scotland Strategic Scrutiny Group, 2019^[36]).

Integrate the multi-level governance dimension

As shown in Chapter 3, the way in which the multi-level governance system is structured and how efficiently it works affects the design, implementation and outputs of public policies with subnational impact. It is therefore crucial to consider the multi-level governance (MLG) dimension in audits of decentralised policies. The Brazilian network of audit institutions is an adequate forum to enable this integration.

A working group or committee might be formed within the network with the specific mandate to put in practice the steps described in Chapter 3 on how to map and assess the capacities and resources at each level of government as well as co-ordination mechanisms between and across each level. Once the analytical framework has been defined, it can be used as an input to design and plan audits. The main result of this design phase of the audit process is the audit plan, which usually includes the audit's objectives, scope, criteria, evidence collection and analysis techniques.

Understanding the topic or object to be audited is important in any type of audit, and good practice is to do this in a pre-audit study. In that respect, development of the MLG assessment framework for a specific decentralised policy area can be considered as such a pre-audit or preliminary study. Therefore, once the committee for audit selection decides on the shared audit programming, it might work in collaboration with the MLG committee to define and refine the audit planning.

Consider establishing a learning cycle

After the audit planning and before the beginning of audit work, the committee's members (or the members of the participating audit institutions) might develop an evaluation process to assess whether the audit objectives, defined at the beginning of the work, have been achieved. The more clearly and precisely these objectives are defined, the clearer will be the evaluation exercise. The evaluation might also address whether and which constraints have impacted the audit work. A repertory of best practices and pitfalls can be a simple way to consolidate the lessons learned (see Box 4.16 for an example from Canada).

Box 4.16. The co-ordinated climate change audit project in Canada: Lessons learned

In November 2015, a project working group consisting of external auditors from most of the offices in Canada decided to undertake audit work on the progress their governments have made on climate change action. From 2015 to 2018, the provincial auditors-general collaborated with the federal Commissioner of the Environment and Sustainable Development, through the Office of the Auditor-General of Canada, to conduct the audit. The summary report, presented to the Canadian Parliament in March 2018, provided an independent review of government progress on climate change commitments across the country.

Lessons learned

The project team has written and published a final report to document the process and to assist the planning of similar work in the future. The 10 top lessons, according to the team:

- *Choose an audit topic that is important* to all citizens, one where all governments involved have made strong commitments and have plans and strategies to meet them, and where working together among jurisdictions to achieve them is necessary.
- *Obtain buy-in and commitment* from the highest levels in all audit offices before proceeding. In addition to getting approval in principle, it is critical to create a project charter that commits to a vision, resources and timelines, and to have the charter approved.
- *Begin the project early*. The project started two years before the planned presentation month of December 2017, and even then it was not presented until 2018 because several jurisdictions had to move their meeting dates for a variety of reasons.
- *Designate clear leadership*, both at a working level and at other levels. With so many participating legislative audit offices, credible leadership, vision and commitment of resources and expertise were needed.
- *Ensure regular and structured communication throughout the project*. The project working group communicated by phone throughout the project. Minutes were taken and distributed by email for those who could not attend every meeting. A secure and user-friendly method for sharing information and report drafts is important.
- *Pay attention to early planning decisions* for what the audits will include, especially considering the number of participating audit offices, in order to have coherent messages. Draft an outline of the summary report early so that all can work toward it.
- *Engage experts in the subject matter*. The OAG has hired experts to advise participating audit offices on specific matters. They have also convened advisory committees to acquire input to help guide the project. Engagement with experts enhanced credibility.
- *Understand differences in practices and methodology*. Not all legislative audit offices do the same things in the same way. Knowing these differences and finding ways to work with them early is important. For example, the project working group consulted with legal counsel during the examination and reporting phases to help them decide what kind of information could be shared and when. Different audit offices have different practices on this matter, as well as others.
- *Present the individual audits as close together as possible* in order to maximise their impact.
- *Embrace innovation and adaptability*. Thinking outside the box and learning along the way have proved critical to success.

Source: (Office of the Auditor General of Canada, 2018_[37]).

The evaluation might take place after the conclusion of the audit, but it might also contain intermediary assessments. Overall, it might assess, through surveys or other indicators:

- *Adequacy of the audit topic* – Was the audit topic important to all citizens? How did the joint work help achieve the audit objectives (i.e. what would not have been achieved without the co-ordination between audit institutions)?
- *Commitment* – Have all the audit institutions involved complied with the timelines and committed to the vision of the network?
- *Design* – Was the audit programming and planning adequate for the audit objectives? What could have worked better?
- *Communication* – Has the communication structure been appropriate? What could have worked better to facilitate the information and knowledge sharing?
- *Different practices and methodologies* – Did the different practices and methodologies negatively affect the audit? How? What measures have been taken in order to address the challenges? What could have worked better?

The results of the assessment might be stored, publicly available and reported to the network's leadership, as well as to all audit institutions participating in the network.

Collaboration in the decentralised audit system in Brazil: Key messages and recommendations

Building on the measures TCU has already taken towards collaboration in the audit system in Brazil, including the several co-ordinated audits that it has led, TCU and TCs could improve the existing actions by establishing a collaborative network, which might take the form of a national council – or, by strengthening the existing administrative organisation networks.

In order to address the challenges for audit networks, TCs might think carefully about the network governance structure and its operational design. Such a structure might be the basis for developing the mechanisms for collaborative selection and alignment of audits among TCs.

To that end, TCs might define the collaborative selection of audits as a strategic objective of the network; develop a shared approach for the prioritisation of audits; and integrate the multi-level governance dimension as part of a pre-audit study or preliminary audit phase.

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Auditing Decentralised Policies in Brazil

COLLABORATIVE AND EVIDENCE-BASED APPROACHES FOR BETTER OUTCOMES

Public policies and services, such as education, health, welfare, infrastructure and sanitation, are increasingly developed and provided via different levels of government (national, regional and local), creating co-ordination and governance challenges. This report describes how Brazil's 33 courts of accounts can use their oversight function – including audits – to help make such decentralised policies more effective and coherent. It presents the results of a 3-year project to improve how the courts can work together, using the area of education as a pilot for testing the use of indicators in the strategic selection of audits. The report offers a model for audit institutions to assess multi-level governance, and explores governance models for stronger collaboration among the courts of accounts in Brazil. These approaches may inspire and inform other supreme audit institutions with responsibilities for auditing decentralised policies and programmes involving central, regional and local governments.



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