

# Institution Building with Limited Resources: Establishing a Supreme Audit Institution in Rwanda

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**Summary.** — This study examines the tensions between best-practice institutional benchmarks and local operational constraints in a developing country institution-building process. Drawing on data from document studies and key informant interviews, we investigate if and how staff capacity constraints affect the achievement of the programmatic ideal of supreme audit institution (SAI) independence, and what tradeoffs this gives rise to in the development of a SAI oversight function in Rwanda. The empirical results suggest that capacity constraints negatively affect important aspects of SAI independence, and point to the need for contextual institutional solutions to safeguard independence as well as to tackle capacity constraints.  
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**Key words** — institution building, capacity constraints, supreme audit institution, Rwanda, Africa

## 1. INTRODUCTION

Developing countries tend to have great needs in terms of institution building but limited resources available for building institutional capacity. Does this call for alternative institutional solutions? While we know that “institutions matter”, we have little insight as to what can be done to build institutional capacity. In the present study, we try to understand developing country institution building. In particular, we are interested in the possible tensions between best-practice institutional benchmarks, or “programmatic ideals”, and local operational constraints in the institution-building process.

Drawing on data from document studies and key informant interviews, our aim is to investigate whether—and through what mechanisms—operational constraints in terms of staff capacity affect the achievement of the programmatic ideal of supreme audit institution (SAI) independence, and what possible tradeoffs this gives rise to in the development of a supreme audit oversight function in Rwanda. The empirical results suggest that capacity constraints within the SAI and in the audited entities negatively impact important aspects of SAI independence, and point to the need for contextual adjustments that involve safeguarding independence in the face of capacity constraints as well as compromising independence in order to be able to effectively tackle capacity constraints.

The concept of “best-practice” institutions can be seen as problematic as it risks being translated into a one-size-fits-all approach to institution-building. Focusing on non-contextual institutional solutions without consideration of local constraints may create distortions and lead reformers to overlook solutions that can achieve the desired ends at lower costs; focusing on first-best solutions is not necessarily ideal in a second-best environment (Rodrik, 2008). As pointed out by Booth (2011, p. 1) “there are no institutional templates that are valid everywhere and for all stages in a country’s development”. Arguably, speaking of “good-practice” or “best-fit” institutions is more appropriate, since it suggests a wish to incorporate insights of what has worked elsewhere while acknowledging the need for adjustments to local circumstances (see e.g., Birner *et al.*, 2006).

In this context, one can distinguish between the programmatic and operational elements of an institutional practice,

the former relating to the ideas and concepts that shape the institutional mission and the latter to the tasks, routines and practicalities facing its practitioners (Power, 1997). An operational constraint could hinder the realization of the programmatic ideal, or it may be necessary to compromise a programmatic ideal to address an operational constraint. Moreover, the nature of binding constraints may vary across settings and change over time, meaning that different priorities are likely to be required at different stages of the reform process.

Tensions between programmatic ideals and operational constraints in the institution-building process should be particularly pertinent in developing countries, where policy-makers tend to get ample advice on best-practice institutional arrangements, while at the same time facing operational constraints in terms of funding, capacity, infrastructure *etc.* A number of recent studies emphasize the context specificity of institutions, and suggest that developing countries may require institutional arrangements that differ from those in rich countries (see e.g., Acemoglu, Aghion, & Zilibotti, 2006; Dixit, 2004; Djankov, Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2003; Rodrik, 2008). Still, we have little knowledge of the specific tradeoffs between best-practice institutional ideals and local operational constraints facing developing country institutions in their start-up phase.

The present case study of a developing country institution building process focuses on the establishment of an SAI in Rwanda. An SAI is a national agency responsible for overseeing the management of public funds and the quality and credibility of governments’ reported financial data (Stapenhurst & Titsworth, 2001). An effective SAI offers a true and fair view on government financial conduct, and communicates its findings to the concerned stakeholders—the parliament, the

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media, and the voters. Being a mechanism for monitoring the government, and for information transmission to voters, it has an important role in promoting government transparency and accountability. It also acts as a deterrent to waste and abuse of public funds (Dye & Stapenhurst, 1998). A large literature demonstrates the importance of monitoring and information transmission mechanisms for government responsiveness and accountability (see e.g., Besley & Burgess, 2002; Persson & Tabellini, 2000; and Adserà, Boix, & Payne, 2003). Moreover, a number of recent studies point specifically to the importance of government audits. Focusing on the health care sector in Argentina and road projects in India, respectively, Di Tella and Schargrodsky (2003) and Olken (2007) both find that increasing audit intensity substantially reduces corruption. Similarly, the findings of Ferraz and Finan (2008), who study the effects of disclosing information about corruption practices on electoral accountability in Brazil, suggest that publicly released audits have a significant impact on electoral outcomes. Against this background, and considering that many developing countries are plagued by problems of corruption and mismanagement of public funds, an SAI is an interesting case to focus on when studying developing country institution building.

Being interested in the interplay between programmatic ideals and operational constraints, it is interesting to study the development of an SAI—an institution with very highly set ideals—and to do so in Rwanda—a country that faces massive challenges in terms of institution building. The most firmly established programmatic ideal of SAIs is arguably that of independence (see Section 2a). Without independence, defined as not having a relationship that could interfere with the exercise of independent judgment (Goodwin & Yeow Yeo, 2001), or more narrowly, as the absence of undue subordination to, and direction and interference from, government (International Organization of Supreme Audit Institutions (INTOSAI), 2001), practitioners and theorists agree that the SAI will not be able to perform its government oversight function effectively (Ahlbäck, 1999; Chowdhury & Innes, 1998; Funell, 1994; Gendron & Cooper, 2001; INTOSAI, 1998; McGee, 2002; Pearson, 1987; Stapenhurst & Titsworth, 2001). The basic idea is simple; to be able to carry out oversight of the executive branch of government, the SAI cannot be aligned with the same. It must be able to do its job without threat of retaliation. SAI independence is closely linked to objectivity or impartiality, in turn necessary for the institution to be able to express a true and fair view.

At the same time, SAIs operating in developing countries face severe operational constraints, one of the most important being the lack of qualified staff (Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007; McGee, 2002). As one commentator puts it, “While the establishment of agreed [audit] standards is essential, the major difficulty faced by developing nations is building the capacity to achieve them” (McGee, 2002, p. 34). In Rwanda, this issue is highly relevant. After the genocide in 1994, which apart from being a human tragedy also led to vast destruction of economic and institutional infrastructure, Rwanda faced massive challenges in terms of institution building. Many government institutions are now being developed simultaneously—basically from scratch—greatly straining human and financial resources. Hence, the supreme audit institution in Rwanda, the Office of the Auditor General (OAG), is young—it was established in 1998, became operative in 2000 and was formally appointed the SAI of Rwanda in 2003—and operates within a public financial management (PFM) system that is also very much in its infancy (Mapsec, 2006; Republic of Rwanda, 2007).<sup>1</sup>

To our knowledge, this is the first study focusing explicitly on the possible tensions between a best-practice institutional ideal and a local operational constraint for effective institution building in a developing country context. As such, it should add to our understanding of the tradeoffs facing developing country institutions in their start-up phase. Moreover, despite the important function of supreme audit institutions, the literature on the development of effective SAI oversight is very meager, in particular for developing countries. In the next section we discuss the SAI independence ideal, and how it may be affected by operational constraints in terms of capacity.

## 2. SAI INDEPENDENCE AND OPERATIONAL CONSTRAINTS IN TERMS OF CAPACITY

### (a) *The SAI independence ideal*

A principal agent approach can help us understand the role of an SAI and considerations important for its independence. Principal agent theory depicts a relation between two actors where the authority is held by one part—the principal—and the informational advantage with the other—the agent. In a democracy, the ultimate principal is the electorate delegating authority to their agent—the government (see e.g., Batley, 2004; Hawkins, Lake, Nielson, & Tierney, 2005; Miller, 2005). The need for the informationally disadvantaged electorate principal to monitor its government agent creates a demand for an SAI (Power, 1997). However, in the public sector there are several other relationships that could also be referred to in principal-agent terms, e.g., that between the legislature and the executive and that between the executive and the bureaucracy, and when a principal hires an auditor to monitor its agent, one could argue that an additional agency relationship arises, where those wanting the audit service still constitute the principal and the *auditor* is the agent (Antle, 1984; Streim, 1994). Considering that the electorate is not a well-defined group that can easily organize and act collectively as a principal, a relevant question becomes, what body constitutes the SAI’s effective principal?

In a Westminster type of audit system,<sup>2</sup> like the one in Rwanda, the SAI constitutes a core element of parliamentary oversight. The SAI reports to parliament, where the public accounts committee scrutinizes audit reports and ensures follow up of audit recommendations (see e.g., Lienert & Jung, 2004; McGee, 2002). Through the audit reports, the parliament makes sure that the executive has operated within the financial limits permitted by the legislature (Funell, 1994). In this system, it may thus be more realistic to see the legislative branch of government as the principal demanding the monitoring service supplied by the SAI. There is a relatively large literature discussing to what extent a legislative principal manages to control the incentive structures of a government connected agency (see e.g., Keefer & Stasavage, 2001; Moser, 1999; Spiller & Gely, 1992; Weingast & Moran, 1983, on the US Federal Trade Commission, the US Supreme court, and central banks, respectively).<sup>3</sup> However, given that close collaboration between the SAI and the legislature is standard practice in Westminster audit systems, the present paper focuses on the relationship between the SAI and the executive. With the electorate as the ultimate principal and the legislature as a legitimate effective principal, a clearly unacceptable principal to the SAI is the very object for audit, i.e., the executive (see e.g., McGee, 2002).

In order to avoid possible misconduct coming to public attention, the executive might try to induce the SAI not to

be very confrontational and create incentives for the auditor not to report breaches. There are a variety of instruments (like making cuts in the SAI budget or firing “uncooperative” auditors) that the executive, if in power to do so, could use to deter the SAI from revealing unpleasant information. The manipulations would have to be within certain confines, though, so as not to lose the appearance of having a well-functioning SAI. Even if there is no direct illegitimate influence of this sort, however, the fact that SAIs are part of the state apparatus, and that their audits are based on interaction and judgment, means that they can never be fully independent; SAI independence has to be judged in terms of degrees (INTOSAI, 1995, 1998).

Evaluating the degree of SAI independence empirically, we distinguish between organizational and functional independence (Grasso & Sharkansky, 2001; Power, 1997). Organizational independence has to do with the formal position of the SAI within the organizational framework and the institutional arrangements in place to insulate it from outside influence. Focusing on the *de jure* independence of the SAI it deals with issues relating to the constitutional/statutory guarantees of independence, funding arrangements, control over personnel, *etc.* Functional independence, on the other hand, relates to the effective independence during the actual audit process. Key issues include whether the SAI can freely decide what to audit and what audit methods to use, whether it can disseminate its findings without interference, and to what extent the SAI enjoys informational and epistemic independence. Informational independence deals with the information asymmetry between auditor and auditee. While auditors always have to trust internal sources of information about the auditee, and thus can be said to be informationally dependent on the latter, the extent of information asymmetry between the two depends on how freely the auditor can access the required information and on its capacity to critically judge the information at hand. Epistemic independence, next, deals with the extent to which there exist clear rules of auditee conduct and well-established techniques for determining compliance, without which there is likely to be negotiation with the auditee with respect to what should count as a violation (Power, 1997).

The research on SAI independence is meager, but there are a few interesting studies in the field. Ahlbäck (1999) evaluates the degree of independence of the Swedish SAI and finds important deficiencies in terms of organizational independence. Grasso and Sharkansky (2001) investigate the independence of the US and Israeli SAIs and find that although both are well equipped in terms of organizational independence, their work is still highly politicized. Gendron and Cooper (2001) investigate the independence of a state auditor in Canada and find that an increase in power and mandate of the audit office has had a negative effect on its independence. Finally, the International Organization of Supreme Audit Institutions (INTOSAI, 2001) evaluates the independence of their member SAIs and concludes that many SAIs are not independent enough to properly fulfill their mandates in accordance with INTOSAI recommendations.

#### (b) *Capacity constraints and SAI independence*

Considering that an often cited problem facing SAIs operating in developing countries is the lack of qualified staff (Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007; McGee, 2002), we focus on operational constraints in terms of staff capacity. By capacity constraints we mean restrictions in terms of the number, training and/or experience of staff, constraining the institution from fulfilling its defined

task. Auditing is demanding; auditors need skills in accounting, statistics, and evaluation techniques, but also knowledge of specific fields or industries (Power, 1997). A survey of 25 African SAIs point to severe capacity constraints; 11 of the SAIs report to have no qualified personnel and nine to be unsure about the qualifications of their staff (Dorotinsky & Floyd, 2004). Moreover, due to their institutional interdependence, it is relevant to consider both capacity constraints facing the SAI and capacity constraints in the audited entities (Dorotinsky & Floyd, 2004; Dye & Stapenhurst, 1998; Levy, 2007).

Being interested in possible mechanisms through which operational constraints in terms of staff capacity could affect SAI independence, we return to the distinction between organizational and functional independence, described above. To the extent that organizational independence concerns formal institutional arrangements in place to insulate the SAI from outside influence, it should not be affected by capacity constraints in the SAI or the audited entities. On the other hand, operational constraints in terms of capacity can seemingly influence functional independence, *i.e.*, the SAIs effective independence during the actual audit process.

Considering possible effects of staff capacity constraints within the SAI, a first issue relates to whether it is open to influence in the choice of audit object. Capacity constraints within the SAI mean that the audit process will have to involve tight prioritization. Focusing on high-risk areas, where the need to produce assurance is high, rather than aiming for a representative sample of transactions is a strategy to increase the cost effectiveness of auditing (Power, 1997). However, how to identify high-risk areas is not obvious (see *e.g.*, Kellner, 2000), and the process involves a considerable degree of judgment on part of the auditor. If the SAI is open to influence in the choice of audit object—a central dimension when assessing its functional independence—the more selective it has to be in choosing what to audit, the greater the threat to its functional independence.

Another issue relates to epistemic independence, in turn closely linked to what type of audit to conduct. Financial, compliance and performance audits require different competences on part of the auditor. Whereas in financial and compliance auditing, the auditor verifies the accuracy of financial statements and asks whether the government has collected or spent no more than the authorized amount of money, performance auditing considers the implementation of government policy and evaluates whether taxpayers get value for their money (Dye & Stapenhurst, 1998). While financial and compliance audits are rooted in accounting procedures, performance audits are based in social scientific enquiry into policy outcomes and involve more discretion in terms of assessment criteria (McGee, 2002; Power, 1997). If the auditor lacks the training and experience to be aware of, and interpret, existing performance criteria, he or she should face a greater risk of ending up in negotiation with the auditee with respect to what should count as good conduct, which is problematic in terms of epistemic independence. Given its greater room for independent assessment, the threat to epistemic independence should be greatest in performance auditing.

Yet another dimension concerns informational dependence. With capacity constraints within the SAI, the institution is likely to become more dependent on informational sources within the audited entity. Also, a lack of experience and training should make it more difficult for the auditor to critically evaluate the information obtained from the auditee.

Turning to the implications of capacity constraints in the audited entities, limited capacity within the executive will affect the material that the SAI has to work with. In many

developing countries, the financial accounts produced by the ministries are often inaccurate and only available after long delays (Levy, 2007), making auditing difficult and time consuming. A result of this could be that the SAI is able to take on fewer audits. A related, and arguably more pressing issue concerns whether the quality of accounts obtained from the audited entities affects the choice of audit object; if the quality of record keeping in a unit is very poor, it could be seen as unauditible. Another possible concern is that capacity constraints in the audited entities affect the nature of SAI judgment by forcing the SAI to comment on the incompleteness of records rather than their contents. In the next section we will discuss how to evaluate these issues empirically.

### 3. METHOD AND DATA

To address our aim, we use a qualitative process tracing approach. Process tracing involves exploring relationships with reference to multiple features of individual cases and examining intervening processes that link the variables hypothesized to have a causal relationship (see e.g., Tansey, 2007). The approach has two central features, suitable for our purposes. First, it focuses on examining causal mechanisms—i.e., on questions of how and why—as opposed to causal effects. Second, it emphasizes careful data triangulation—i.e., cross-checking multiple data sources against each other.

Our primary outcome variable is to what extent the OAG achieves the programmatic ideal of SAI independence, judged in terms of its degree of organizational and functional independence in line with the discussion in Section 2a. The explanatory variable of interest is operational constraints in terms of staff capacity—in the OAG as well as in the audited entities. We hypothesize that OAG’s independence will be negatively affected by staff capacity constraints in these institutions, and seek to explore the causal mechanisms through which this possible influence takes place. To the extent that the organizational independence of the OAG is legally established, and in line with the discussion in Section 2b, we anticipate that it will work via threats to OAG’s functional independence.

Ultimately, however, we are of course interested in the establishment of an effective SAI oversight function (see Section 2). While SAI independence and staff capacity constraints are often suggested to individually affect the effectiveness of SAI oversight, our argument indicates that the two factors might also interact. We conclude with a discussion of tradeoffs facing the OAG in trying to establish an effective government oversight function, given the programmatic ideal of independence and operational constraints in terms of capacity. The coding framework in Section 3b guides our empirical analysis.

#### (a) Data

We draw on qualitative data from document studies and key informant interviews. While the former data source provides official accounts of events, and thus is unobtrusive, the interview material helps shed light on information not revealed in the formal reports and allows us to get direct accounts from important first-hand participants of the institution building process under investigation (Tansey, 2007; Yin, 2003).

We consult the following documents: (1) legal documents establishing the mandate of the OAG, i.e., Rwanda’s constitution and organic budget law (Republic of Rwanda, 2003, 2006), (2) OAG strategic documents, namely its financial audit manual, strategic plan, and code of ethics (Republic of Rwanda OAG, 2004a, 2006b, 2007a), and finally (3) OAG audit out-

put, i.e., its annual reports (Republic of Rwanda OAG, 2003, 2004b, 2005, 2006a, 2008, 2009a,b). While the legal and strategic documents offer insight into the formal organizational structures and objectives of the OAG, the audit output provides information on the institutional practice. For the full list of documents analyzed, see Appendix A1.

Interviews were conducted during a field trip to Rwanda in 2008. Interview subjects were chosen based on occupational position as known important actors in the concerned organizations and according to the extent to which they were deemed influential in the area by their peers. In order to get a balanced account, we interviewed representatives from the OAG and the executive branch of government, as well as from a wide range of related government and non-government organizations. At the OAG we interviewed the Auditor General, the Deputy Auditor General and representatives at the director level. In the executive branch of government, we interviewed the Chief Internal Auditor, the Accountant General and representatives of the ministry of finance committee on PFM. Moreover, we interviewed the Chair of the budget committee of the parliament, representatives of donors who have provided direct assistance in the development of the OAG (Sida and the Swedish national audit office, the latter conducted in Sweden), and representatives of other important oversight bodies and institutional capacity building organizations (the Office of the Ombudsman, the National Tender Board, Transparency Rwanda, and HIDA) and of governance and PFM sections of influential donors in the country (the World Bank, the IMF, Dfid and the EC). Appendix A2 shows the full list of interview subjects.

Given the different backgrounds of our interviewed key informants, we used a non-standardized interview framework allowing us to adapt the questions to the specific competences of each subject. Still, each interview focused on the same broad topics—the institutional role, development, audit scope and process, constraints, reception and impact of the OAG. In the interest of confidentiality, we do not disclose the identity of the respondents behind individual responses, but simply note how many respondents that have raised a specific issue.

#### (b) Coding framework

The qualitative data from the documents and interview transcripts is coded—i.e., organized into categories by topic and analytical themes (see e.g., Auerbach & Silverstein, 2003)—using directed content analysis. We begin by considering operational constraints in terms of staff capacity in the OAG and the audited entities (see Table 1). We define the task of the OAG and the responsibilities of the audited entities toward the OAG, and consult the documents and interview material as to whether the concerned institutions have sufficient capacity in terms of the number, training and/or experience of staff to address these missions.

Table 1. Coding frame to assess the staff capacity constraints facing the OAG and the audited entities

A. Staff capacity constraints in the OAG
(a). Defined task
(b). Sufficient capacity, in terms of the number, training and/or experience of staff, to fulfill its defined task?
B. Staff capacity constraints in the audited entities
(a). Defined responsibilities to the OAG
(b). Sufficient capacity, in terms of the number, training and/or experience of staff, to fulfill these responsibilities?

Table 2. *Coding frame to assess the organizational independence of the OAG*

A. Constitutional position of the OAG
(a). Mandate: clarity, scope, established in the constitution?
(b). Accountable to the legislature or the executive?
B. Financial independence
(a). Guaranteed funds to carry out its work effectively?
(b). Budget established in the constitution, approved by legislature or executive?
C. Administrative independence
(a). In charge of internal structures such as job descriptions, remuneration and staff recruitment/dismissal?

Table 3. *Coding frame to assess the functional independence of the OAG*

A. The distribution of results
(a). Can it publish and disseminate findings without interference?
B. The choice of audit projects
(a). Can it choose freely what to audit?
(b). Can it choose freely what audit methods to use?
C. Informational independence
(a). Can it access information freely?
(b). Does it have the internal competence necessary to interpret the information?
D. Epistemic independence
(a). Are audit judgments based on clear performance criteria?

We then turn to the programmatic ideal of SAI independence, and whether the effort to reach this objective is affected by facing operational constraints in terms of capacity. While the existing literature has not explored the potential influence of staff capacity constraints on SAI independence, it provides good guidance on what criteria to consider when assessing SAI organizational and functional independence (see Section 2a). Hence, we use the theoretically predetermined categories and questions in Tables 2 and 3 to evaluate OAG's independence, for each point assessing whether the documents and interviews consulted suggest an influence of capacity constraints in the OAG and the audited entities.<sup>4</sup>

Finally, based on insights from the above analysis, we end with a discussion of tradeoffs facing the OAG in trying to establish an effective government oversight function, given the programmatic ideal of independence and operational constraints in terms of capacity.

#### 4. RESULTS

##### (a) *Operational constraints in terms of capacity*

Let us begin by considering capacity constraints in the OAG and the audited entities. With respect to the former (Table 1, Point A), we ask whether the OAG has sufficient capacity, in terms of the number, training and/or experience of staff, to fulfill its defined task. First of all, we can note that the undertaking at hand is significant, both in terms of scope and skill requirements. As noted, the role of an SAI is to offer a true and fair view on government financial conduct, and to communicate its findings to the concerned stakeholders. The responsibilities of the OAG, as established in Rwanda's consti-

tution (Republic of Rwanda OAG, 2003, Article 183, as amended to date), include auditing revenues and expenditures of the state, local government agencies, public enterprises, parastatal organizations, and government projects, making sure that they are in accordance with the laws and regulations in force and in conformity with prescribed justifications. According to their Financial Audit Manual (Republic of Rwanda OAG, 2004a, p. 8), the audit team should obtain "knowledge of the entity's business/operations sufficient to enable them to identify and understand the events, transactions and practices that [...] may have a significant effect on the financial statements and on the audit report", "a general knowledge of the environment (legal, political, economic and social) and the industry within which the entity operates", "particular knowledge of how the entity operates", as well as consider the "goals, objectives, strategies and business processes put in place by management to attain the entity's goals and objectives".

Against this background, it is not surprising that the documents consulted, as well as nearly all interview respondents, stress staff capacity as a binding constraint facing the OAG. It is suggested that full coverage of the OAG's mandate, and timely reports, cannot be achieved until "adequate financial and human resource capacity at the Office of the Auditor General" is achieved (Republic of Rwanda OAG, 2008, 2009a,b). There is an acute shortage of accountants, not only within the OAG but in the country as a whole, and with accountants being very sought after the OAG has problems retaining staff. High staff turnover is cited as a key constraint restricting the OAG in its work and draining the office of extensive experience (Republic of Rwanda OAG, 2006b, 2009a,b). Hence, the OAG stresses the need for training and technical assistance, but also the necessity of reducing staff turnover in order to ensure sustainability of capacity building efforts (Republic of Rwanda OAG, 2004b, 2006b, 2009b).<sup>5</sup> Suggested reasons for the staff retention problem include competition from private sector employers and donor funded institutions offering higher wages (four respondents), a heavy workload and a stressful working environment (three respondents).

Turning to capacity constraints in the audited entities (Point B in Table 1), we are interested in whether they have sufficient capacity, in terms of the number, training and/or experience of staff, to fulfill their responsibilities to the OAG. As formally established in the recently adopted Organic Budget Law (Republic of Rwanda, 2006), these consist in preparing accounts for submission to the OAG, and to respect the instructions of the same.

With these responsibilities in mind, the interview material and the consulted documents suggest severe capacity constraints in the audited entities. Many (twelve) interview respondents stress the lack of an accounting tradition and the acute shortage of professional accountants in Rwanda, and the OAG points to an undeveloped public financial management and auditing environment as a key constraint facing the office (Republic of Rwanda OAG, 2006b). The earlier OAG reports suggest that most of the audited entities do not have internal audit functions, and where they are in place their work is described as "neither effective nor reliable" (Republic of Rwanda OAG, 2005, 2006a). Later reports point to some improvements, suggesting that most of the audited entities now have internal audit functions, but their work is still referred to as ineffective and unreliable (Republic of Rwanda OAG, 2008, 2009a,b). Hence, although there are signs of progress over the years covered in the OAG audit reports, the picture revealed in the reports is one of incomplete—in

many cases non-existent—financial reporting. Many of the audited entities do not keep basic books of accounts, and not until the financial year 2006 (the audit of which was completed in 2008) was there a state-consolidated financial statement available for audit. In the most recent audit report considered here, the majority of auditees still did not submit financial statements to the OAG, and very few did so on time (Republic of Rwanda OAG, 2009b).

*(b) OAG independence and operational constraints in terms of capacity*

*(i) Organizational independence*

Assessing the organizational independence of the OAG, i.e., the institutional arrangements in place to insulate it from outside influence, we take as a point of departure the coding frame in Table 2. With respect to the constitutional/statutory position of the OAG (point A), independence is stronger if the mandate of the SAI, which needs to be clear and sufficiently broad for it to be able to carry out its work effectively, is established in the constitution. In particular, the SAI should be devoid of accountability to, and pressures from, the main object for audit, i.e., the executive.

We can note that since 2003, the OAG's mandate has been formally established in Rwanda's constitution (see the above description of Article 183 in Republic of Rwanda OAG, 2003). Since 2006 it is also established in the Organic Budget Law (Republic of Rwanda, 2006). Furthermore, and as appropriate, the constitution (Article 184) makes clear that the OAG shall report to the legislative rather than the executive branch of government. Based on articles 183-184 in the constitution, it also seems fair to argue that the mandate is sufficiently broad for the OAG to be able to carry out its work to promote accountability and transparency in government. In effect, the OAG argues that it is too wide in view of the financial and human resource constraints facing the institution; it is far from being able to audit all the entities covered in its mandate as stated in the constitution (Republic of Rwanda OAG, 2006b).

With respect to the financial and administrative autonomy of the OAG (points B and C), the institution should be guaranteed funds to carry out its work effectively, and to avoid a problem of not daring to bite the hand that feeds it, its budget and incentive structures should not be controlled by the executive. Article 183 in the constitution explicitly states that the OAG is an "independent national institution" and that it shall have "financial and administrative autonomy". Moreover, it is established that the OAG shall be "headed by the Auditor General assisted by a Deputy Auditor General and other necessary personnel", which seems to suggest that the institution is free to hire the personnel required for its purposes. While the constitution does not specify that OAGs budget should be approved by the legislative branch of government, the OAG Financial Audit Manual states that the legislature should provide the institution "with sufficient resources, for which the institution is accountable, as well as for the effective exercise of its mandate" (Republic of Rwanda OAG, 2004a, p. 35). Furthermore it should be noted that for several years, donor money from Sweden and the Netherlands has made up approximately half of the OAG budget (see Republic of Rwanda OAG, 2006b). Considering that these funds are managed through a steering committee composed of the OAG and the Swedish and Dutch SAIs, they should arguably act in favor of the OAG's financial independence in relation to the executive. However, in order to avoid disruptive cuts in the budget when donor support is suspended, statutory guarantees of funding are important.

In practice, the OAG stresses that full coverage of its mandate cannot be achieved until the Office obtains adequate financial and human resource capacity (Republic of Rwanda OAG, 2008, 2009a,b), and that insufficient flexibility to handle human resource concerns independently, especially wage setting which is controlled by the Ministry of Labor, Skills Development and Vocational training, contributes to high staff turnover (Republic of Rwanda OAG, 2006b). The latter is problematic in terms of administrative independence, and the former in terms of financial independence.

Furthermore, whereas the constitution (Article 88) specifies that the parliament shall approve the appointment of the Auditor General, it does not contain any provisions for parliamentary involvement in the termination of the Auditor General's contract (see the discussion in Lienert, 2004). While the same person—Evelyn Kamagaju Rutagwenda—has had the position of Auditor General since 2004, organizational independence would be stronger if there were constitutional guarantees restricting the executive from unilaterally suspending her.

When it comes to job descriptions, however, it is our impression that the OAG has a strong sense of ownership. The constitution (Article 183) specifies that no one is "permitted to interfere in the functioning of the Office or to give instructions to its personnel or to cause them to change their methods of work", and in line with this, the interview material contains no reports of government obstructions of OAG's work. Rather, several (nine) respondents—both within the OAG and in government and non-government institutions surveyed—suggest that the OAG is met with positive attitudes and that there is political will for reform and to work against corruption. Also, developing its strategic documents—the Strategic Plan, Code of Ethics, and Audit Manual—the OAG has followed international (INTOSAI) auditing guidelines and received technical support from donors, yet there are no indications that the Government has been involved in this process.

To the extent that organizational independence concerns formal institutional arrangements in place to insulate the SAI from outside influence, it should not be affected by capacity constraints in the OAG and the audited entities. Rather, threats to financial and administrative independence seem to contribute to capacity constraints within the OAG. In sum, we can note that while the OAG's constitutional guarantees of independence are relatively well established, it is not evident that the legal provisions translate into practice.

*(ii) Functional independence*

Turning to the OAG's functional independence, i.e., the effective independence from influence during the actual audit process, the OAG strategic documents suggest that the institution has highly set objectives. Its Code of Ethics describes independence from the audited entity and other outside interest groups as "indispensable" (Republic of Rwanda OAG, 2007a, Article 14), and the Financial Audit Manual puts down that the OAG "should discharge its mandate freely and impartially" (Republic of Rwanda OAG, 2004a, p. 36). It is important to note, however, that the OAG strategic documents formulate objectives, rather than describe the realities of the institutional practice. Given the difficulty of balancing the expressed objectives, such as relying on information from the audited entity while not being influenced by the same (Republic of Rwanda OAG, 2004a), the audit process involves threats to independence that are difficult to get around by legislating. In line with this, the OAG Strategic Plan argues that the institution does not have sufficient "real independence" (Republic of Rwanda OAG, 2006b). To explore this further, we need to

complement the information in the OAG strategic documents with accounts of the actual audit process.

With respect to the distribution of results (point A in Table 3), there are no reports—neither in the interview material nor in the documents consulted—of the government interfering with the publication and dissemination of OAG findings. Rather, the OAG claims that it has good support from its major stakeholders (Republic of Rwanda OAG, 2006b). In fact, OAG's findings are widely distributed. When the yearly report is presented to the parliament, the media and donors are invited and tend to show up in great numbers (six respondents). Moreover, the audit reports are publicly available on the OAG website (see Republic of Rwanda OAG, 2010). This functional independence dimension is seemingly not affected by capacity constraints in the OAG or the audited entities. What is pointed out as a problem is rather how weak capacity among the media and in the parliament hinders effective follow up of OAG findings (six respondents).

Turning to the choice of audit object (point B in Table 3), on the other hand, the interview material and the documents consulted suggest that capacity constraints in the OAG and the audited entities might pose a threat to independence. While there are no reports of the government pressuring the OAG in its decision of what audit projects to take on or of what methods to use—according to an interview respondent with experience of working for the OAG, the government can sometimes ask the OAG to look into certain projects, yet the OAG can always choose to neglect the invitation—the choice of audit object is seemingly affected by factors of a more subtle nature.

A first concern, related to capacity constraints in the audited entities, is that the quality of accounts affects what audit projects the OAG takes on. If the quality of record keeping in a unit is very poor, it could be seen as unauditible. And, of course, if no records are produced, there is no audit trail to follow. As discussed in Section 4a, many of the audited entities do not keep basic books of accounts, and when scrutinizing the OAG reports, it is clear that this affects what audits the institution carries out. As formulated in one of the reports: “Most of the public entities audited did not maintain proper books of account or prepare financial statements for the year ended 2004. [...] To address this problem in the future, I propose that only public entities with financial statements will be audited” (Republic of Rwanda OAG, 2005). Similarly, the Auditor General declares that “For [XX], I was unable to carry out a full scope audit because of the poor state of books of account and supporting records” (Republic of Rwanda OAG, 2009a). According to one interview respondent some institutions have, in the absence of accounts, not been audited since 2003. The OAG Strategic Plan states it simply: “the money cannot be audited without an audit trail” (Republic of Rwanda OAG, 2006b, p. 7). Given the risk that poor record keeping is used to mask abuse of funds, this poses a threat to OAG functional independence.

Second, it seems likely that the extent to which there exist clear performance criteria—or the extent to which the auditor is aware of existing performance criteria—in a field could affect the OAG choice of whether to conduct audits in the same. Presumably, it is easier to focus audits in areas with well-defined rules, in particular if auditors have little training and experience. Two areas that receive considerable attention in the audit reports are procurement and non-compliance with contractual terms (see e.g., Republic of Rwanda OAG, 2005, 2006a, 2008). Both areas could be seen as high risk, and thus in great need of audit, but they also have in common that the performance criteria are relatively clear.

Adding to the problem, capacity constraints within the OAG and in the audited entities both have a negative effect on OAG's coverage, implying that the audit process will have to involve tight prioritization. As noted in Section 4a, capacity constraints within the OAG effectively restrict the institution from fulfilling its mandate. Similarly, working with incomplete, delayed and poor quality financial records—a result of capacity constraints in the audited entities—takes time, and thus negatively affects OAG coverage and contributes to delays in submission of OAG reports (Republic of Rwanda OAG 2008, 2009a,b). If open to influence in the choice of audit object, as suggested above, the more selective the OAG has to be in choosing what to audit, the greater the threat to its functional independence.

With respect to the informational independence of the OAG (see point C in Table 3), we ask two questions: (1) can the OAG access information freely, and (2) does the OAG have the internal competence required to interpret the information acquired? Based on these, we argue that capacity constraints in the OAG and the audited entities pose a threat to informational independence. The answer to the first question relates to capacity constraints in the audited entities. Whereas there are no reports of the OAG having trouble accessing *existing* material available for audit, all the audit reports as well as numerous (eight) interview respondents suggest that a serious problem lies in getting the audited institutions to actually keep accounts. This could be seen as a serious threat to OAG's informational independence.

The second question, relates to capacity constraints within the OAG. The auditor faces a difficult balancing act—while depending on information from the audited entity, the auditor's judgment should not be affected by it. Consider Article 21 in the OAG Code of Ethics (Republic of Rwanda OAG, 2007a, p. 6): “Auditors should make use of information brought forward by the audited entity and other parties. This information is to be taken into account in the opinions expressed by the auditors in an impartial way. The auditor should also gather information about the views of the audited entity and other parties. However, the auditor's own conclusions should not be affected by such views.” To judge the obtained information in an impartial manner is clearly not an easy task, and lacking sufficient training and experience the auditors are likely to be less able to critically evaluate the information obtained. In the Financial Audit Manual (Republic of Rwanda OAG, 2004a), the OAG stresses the importance of capacity for safeguarding independence, pointing to the educational, training and experience requirements for entry into the OAG, and to compliance with professional standards and implementation of monitoring and disciplinary processes. Similarly, in its Code of Ethics, the OAG explicitly states that “Auditors must not undertake work they are not competent to perform” (Republic of Rwanda OAG, 2007a, Articles 31). The OAG is thus aware of the concern that capacity constraints could have a negative effect on independent judgment. However, given the emphasis placed on the OAG being restricted by capacity constraints and on high staff turnover draining the office of experienced personnel, and the repeated calls for training and technical assistance (see Section 4a), it is clear that the institutional practice has yet to meet these highly set standards.

Finally, judging the epistemic independence of the OAG (point D in Table 3), the interview material and the documents consulted suggest that capacity constraints within the OAG add to the problem of insufficient guidelines for judging auditee conduct. It is our impression that when clear performance criteria exist, the OAG applies them. In this respect, the

implementation of the Organic Budget Law (Republic of Rwanda, 2006a) has been important; the later OAG reports frequently refer to direct violations of the sort “law XX stipulates that [...]. Contrary to law XX the audited entity [...]”. Pointing to specific law breaches in this way is of course ideal in terms of epistemic independence, since it allows little room for negotiation with the auditee on what should count as good conduct. Furthermore, the fact that the OAG follows international (INTOSAI) auditing standards (Republic of Rwanda OAG, 2005) should be helpful in terms of epistemic independence. That said, however, clear performance criteria appear to be lacking in many areas, and in the audit reports the OAG repeatedly calls for improved guidelines. To mention an example, the OAG points to “a need for the government to come up with clear policy on transport” with “clear guidelines on cost limits” (Republic of Rwanda OAG, 2008).

The clarity of performance criteria seemingly does not only vary across fields and projects, but also with type of audit. The OAG clearly enjoys stronger epistemic independence in the field of financial audits than with respect to performance audits. For the former, the OAG has developed its own Financial Audit Manual (Republic of Rwanda OAG, 2004a), with audit procedure guidelines in line with INTOSAI standards. For performance audits, on the other hand, it has yet to produce an audit manual. Moreover, whereas financial audits depend on compliance with financial regulations, performance audits should evaluate project implementation and thus depend on the clarity of objectives in the audited entities. According to the OAG, the majority of projects and development programs lack specific and quantified objectives, thus making it difficult to conduct performance evaluation (Republic of Rwanda OAG, 2006b).

Adding to the problem, the OAG auditors have limited skills in performance auditing, and the Office stresses the need for a performance audit manual as well as training and technical assistance in the field (Republic of Rwanda OAG, 2006b). If the auditor lacks the training and experience to be fully aware of existing performance criteria, he or she faces a greater risk of ending up in negotiation with the auditee with respect to what should count as good conduct. Similarly, lacking well-established performance criteria, an untrained and inexperienced auditor should have difficulties in critically judging the performance of the auditee. In its Code of Ethics, the OAG states that auditors “must possess a good understanding of the constitutional, legal and institutional principles and standards governing the operations of the audited entity” (Republic of Rwanda OAG, 2007a, Articles 32). This clearly requires significant competence on part of the auditor.

With one worry being that capacity constraints within the OAG make auditors less able to interpret and independently judge auditee performance, a related concern is that capacity constraints in the audited entities affect what type of judgments the OAG can make. Given the in many cases incomplete audit trail, the OAG is often forced to comment on the incompleteness rather than the content of records. Arguably, reports of “non-preparation” of financial statements (see e.g., Republic of Rwanda OAG, 2005) are, although clear, not as confrontational as reports pinpointing specific units or individuals abusing funds. Similarly, the OAG often explains failures to meet standards by referring to capacity constraints in the audited entity. For example, identifying errors in accounts, it proposes that this “could be an indicator that budget agencies may not have competent staff for the accounting function” (Republic of Rwanda OAG, 2009b). Likewise, the OAG sometimes stresses the need for training rather than reprimands when audited entities fail to implement audit

recommendations: “Continuous failure to implement audit recommendations should necessitate action by supervising authorities, such as training” (Republic of Rwanda OAG, 2008). Although in most cases probably fair—a number of interview respondents (four) who do not themselves represent audited organizations argue to the same effect—pointing to capacity constraints and honest mistakes is not as confrontational as suggesting possible fraud. That said, when having access to the necessary documentation to back up its claims, the OAG seemingly does not shy away from identifying cases of outright fraud, pinpointing the specific institutions and individuals involved.

Summing up, we can note that whereas the organizational independence of the OAG—the institutional arrangements in place to insulate it from outside influence—is relatively well established and seemingly unaffected by capacity constraint in the OAG and the audited entities, the institution is not functionally independent to the same extent. In many cases, threats to OAG’s functional independence originate in capacity constraints in the OAG and the audited entities. Key issues involve the impact of staff capacity constraints on the choice of audit object and on informational and epistemic independence.

### (iii) *Contextual institutional solutions*

The above analysis point to the need for institutional solutions that are sensitive to local constraints. Trying to establish an effective government oversight function, while seeking to safeguard the programmatic ideal of independence and facing operational constraints in terms of capacity, important trade-offs concern to what extent the OAG should be self-reliant or bring in outside help, how to sequence the institution building process, and the degree to which the OAG should take on an advisory role in relation to the audited entities.

Threats to informational and epistemic independence based in capacity constraints within the OAG could seemingly be alleviated by bringing in outside help in the form of private consultants and donor funded technical assistance. As noted, the OAG has received extensive donor support, much of which has been in the form of technical assistance from the Swedish and Dutch SAIs (for an evaluation, see Mapsec, 2006). Moreover, while the lack of accountants in Rwanda limits the possibility to outsource audits to private firms (Republic of Rwanda OAG, 2006b), the OAG has on several occasions brought in international consultants. The OAG Financial Audit Manual explicitly states that “in cases where appropriate skills are lacking, use of outside experts should be considered” (Republic of Rwanda OAG, 2004a, p. 7). Hence, rather than basing judgments on insufficient knowledge, the OAG should rely on external support. In a way, this could be seen as trading informational dependence on the auditee for informational dependence on an external expert. From an SAI independence perspective, the latter is clearly preferable to the former. Importantly, however, bringing in external assistance without mechanisms for proper skill transfer is not sustainable (Republic of Rwanda OAG, 2008, 2009a,b). To build institutional capacity, and not remain informationally dependent on external support, one must ensure knowledge transfer from the external consultants to the OAG staff. The high staff turnover within the OAG constitutes a problem in this context.

Another consideration, also relating to the capacity constraints within the OAG, concerns the sequencing of institutional reform. A key question in this respect is to what extent the OAG should move from financial/compliance audits into performance auditing. As we have seen, due to

capacity constraints the OAG has yet to fulfill its undertakings in terms of financial audit, and performance audit arguably poses a greater threat to independence. Performance audits are the focus of many Western SAIs today, and can provide powerful tools for evaluating how effectively the government implements policy. At the same time, however, moving into performance auditing involves a risk of becoming increasingly politicized (Grasso & Sharkansky, 2001; Power, 1997). Performance audits are supposed to comment on the implementation of government policies, not their content. However, the boundary between policy objectives and policy implementation is not necessarily clear-cut, and reasonably, evaluating policy implementation without over-stepping this line should be particularly difficult for an auditor lacking experience and training.

At the time of writing, there is only one publicly available OAG performance audit report (see Republic of Rwanda OAG, 2007b). More performance audits are underway, though, and the longer-term ambition is to increasingly focus on this form of evaluation (two respondents). As we have seen, however, the OAG reports to have limited skills in performance auditing and stresses its need for training and technical assistance in the field (Republic of Rwanda OAG, 2006b). Moreover, the fact that the OAG has yet to produce a performance audit manual, coupled with reports of unclear project objectives in the audited entities, means that the OAG has limited access to established performance indicators in the field. Hence, it seems that at this stage, carrying out performance audits could be problematic in terms of informational and epistemic independence, with the auditor risking to become dependent on informational sources within the audited entity and to end up negotiating with the same about what should count as good conduct. At the least, it is clear that the OAG is in need of training in the field before further expanding its activity in the area.

Another important issue has to do with to what extent the OAG should take on an advisory role. A worry is that by taking on an advisory role vis-à-vis the audited entities, the OAG might develop relationships that jeopardize its independence. Nevertheless, faced with an incomplete audit trail, the OAG might feel a need to lend a helping hand. In line with this, several (six) of the interview respondents stress the educational role of the OAG in relation to the spending units in the ministries. In the Financial Audit Manual the OAG emphasizes the importance of remaining impartial when providing advice to the audited entity: "When advising the executive in such matters as accounting standards and policies and the form of financial statements, the institution must ensure that it avoids any explicit or implied commitment that would impair the independent exercise of its audit mandate" (Republic of Rwanda OAG, 2004a, p. 35). In another passage of the manual, however, the message is that the OAG should refrain from an advisory role with respect to the audited entity: "Audit personnel should not become involved in instructing personnel of an audited entity as to their duties" (p. 36). Evidently, the extent to which the OAG can and should take on an advisory role is not a clear-cut matter.

Considering that the OAG is in the early stages of the institution building process, one should arguably not only consider the effectiveness of OAG's current oversight role, but also to what extent the institution helps contribute to conditions enabling *future* oversight. If failing to address the capacity constraints in the audited entities, there is a risk that the OAG will continue to face an incomplete audit trail possibly hiding fraud. Still, a valid question is whether the OAG is the appropriate institution to help alleviate capacity constraints among

the audited entities; presumably, just as the OAG could bring in external consultants, so could they. Considering the acute shortage of accountants in Rwanda, coupled with reports of low quality of consultant services and limited knowledge transfers from the external consultants to the local staff (Republic of Rwanda OAG, 2008, 2009a,b), however, temporarily taking on an advisory role to help improve the audit trail is, although potentially compromising independence, arguably necessary for the OAG to be able to exercise effective oversight in the future.

In fact, several (10) interview respondents point to significant improvements in terms of financial reporting in the audited entities, and suggest that the OAG has contributed to this development. Comparing the yearly OAG reports over time points in the same direction—while there are still serious deficiencies in terms of accounting procedures, it is now more common among the audited entities to actually keep books of accounts. Moreover, the number of OAG reports of outright fraud has increased over the years. While we cannot rule out the possibility that there has in fact been an increase in the number of fraudulent cases, it seems reasonable that part of this development could be due to a more effectively working OAG, and an improved audit trail increasing the chances of detecting abuse of funds. If what we are observing is a trend where the OAG goes from having to focus almost exclusively on the incompleteness of records to actually having records to audit and therefore being able to detect fraud, this would suggest significant developments in Rwandan public financial management.

## 5. CONCLUSIONS

Developing countries tend to have great needs in terms of institutional development but limited resources available for building institutional capacity. Does this call for alternative institutional solutions? Several recent studies point to the problems of a one-size-fits-all approach to institution-building without consideration of local constraints. Yet we have little knowledge of the specific tradeoffs between best-practice institutional ideals and local operational constraints facing developing country institutions in their start-up phase.

The present study considers the establishment of a supreme audit institution (SAI) in Rwanda. Supreme audit institutions have a central role in promoting government transparency, accountability and sound financial management. In a developing country like Rwanda, this ultimately entails helping to ensure that public funds reach the poor. However, while operating with highly set ideals, developing country SAIs also tend to face severe operational constraints. We investigate the possible mechanisms through which operational constraints in terms of staff capacity influence the achievement of the programmatic ideal of SAI independence, and what possible tradeoffs this gives rise to in the development of a supreme audit oversight function in Rwanda.

Drawing on data from document studies and key informant interviews, the results of the empirical analysis suggest that while the organizational independence of the OAG (Rwanda's SAI) is relatively well established and unaffected by capacity constraint in the OAG and the audited entities, the institution is not functionally independent to the same extent. In many cases, threats to OAG's functional independence originate in capacity constraints in the OAG and the audited entities. Key issues involve the impact of staff capacity constraints on the choice of audit object and on informational and epistemic independence.

Our findings have concrete implications for the specific institution building process under study. Trying to establish an effective government oversight function, while striving for the programmatic ideal of independence and facing operational constraints in terms of capacity, the OAG faces important tradeoffs involving safeguarding independence in the face of capacity constraints, as well as compromising independence in order to be able to effectively tackle capacity constraints. With respect to the former, we argue that by bringing in external assistance, and by not moving from financial/compliance audits into performance auditing until having the necessary skills and performance criteria in place, the OAG could avoid important threats to its informational and epistemic independence. Regarding the latter, we argue that temporarily taking on an advisory role in relation to the audited entities is, although potentially compromising independence, most likely necessary for the OAG to help improve the audit trail so as to be able to exercise effective oversight in the future.

Moreover, we believe that our findings shed light on circumstances relevant for other developing countries in need of significant institutional development but with limited means available for institution building. In general terms, our analysis illustrates that institution building bounded by operational constraints requires careful sequencing of institutional reform in line with local constraints. It also points to the importance of being aware of institutional interdependencies, i.e., ways in

which different institutions interact and how they can reinforce each other. In particular, in areas where there are severe capacity constraints and staff retention problems, there is a need for co-ordinated capacity building initiatives. Furthermore, and as illustrated by OAG having weaker functional than organizational independence, our findings suggest that while having the appropriate legal framework in place might be necessary, it is not sufficient to ensure a well-functioning institutional practice; effort needs to be put into translating the legal framework into practice.

By highlighting the mechanisms through which local operational constraints influence the achievement of a programmatic institutional ideal, and what specific contextual adjustments this calls for in the concerned institution building process, the present paper illustrates the need for a shift from a best-practice to a best-fit approach to developing country institution building. As such, it contributes to an area of study that is in great need of further research. To be able to advocate contextual institutional solutions, without having to resort to the conclusion that every situation is unique, studies exploring the mechanisms of effective institution building for institutions facing different programmatic ideals and operating in settings with different types of constraints are necessary. We need a greater understanding of what institutional solutions work under which circumstances, and why.

## NOTES

1. Prior to the OAG, and since independence from Belgium, Rwanda had a Court of Accounts (*Cour des Comptes*) inspired by the colonial power. The institution was meant to audit the government consolidated financial accounts, but due to the unavailability of such accounts, it did not function properly in practice (see Lienert, 2004).

2. The Westminster audit model, where the Auditor General reports to Parliament, is used in many Commonwealth, Caribbean, Pacific and sub-Saharan African countries. The Board audit model is similar to the Westminster system and prevalent in Asia. In the Napoleonic (or ‘*comptes des comptes*’) model exported by the French to the Latin countries in Europe and to some countries in South America and Africa, however, the SAI is independent of both the legislative and executive branches of government and instead an integral part of the judiciary. For an overview of the Westminster, Board and Napoleonic audit models, see e.g., Dye and Stapenhurst (1998) and Stapenhurst and Titsworth (2001).

3. An important argument is that the independence of an agency is only credible in the presence of heterogeneous preferences and political checks and balances preventing legislators from removing the agency’s independent status (see Moser, 1999; and Keefer & Stasavage, 2001). The fact that since the genocide, the Rwandan presidential elections have been dominated by one party—the Rwandese Patriotic Front (RPF)—thus constitutes a potential concern. While the present paper focuses on the mechanisms through which capacity constraints affect SAI independence in relation to the executive, we can nevertheless note that in Rwanda’s bicameral parliament the distribution of power among the elected and

appointed members is less concentrated, and that as appropriate, the public accounts committee is chaired by a member of the opposition. Moreover, and as will be discussed in Section 4b(i), unlike for some other independent government agencies (e.g. central banks, see Moser, 1999), the mandate and independence of an SAI is often established in the country’s constitution.

4. The organizational and functional independence classifications in Tables 2 and 3 are adaptations based on Power (1997) and Grasso and Sharkansky (2001). While the SAI independence terminology and classifications used by different authors and institutions are not identical, the main ideas tend to be very similar (see e.g. INTOSAI, 2001; Lienert & Jung, 2004). For instance, instead of making a main distinction between organizational and functional independence, as is done in the present paper, INTOSAI (2001) considers five dimensions of independence: (1) “constitutional/statutory guarantees of independence”, (2) “financial autonomy”, (3) “managerial/administrative autonomy”, (4) “functional/operational independence”, and (5) “freedom of reporting”, all with different sub-categories. Compared to our setup, dimensions 1–3 are similar to points A–C in Table 2 and dimensions 4–5 clearly relate to what we consider in Table 3.

5. Between 2004 and 2008 74 audit staff, or an average of 15 per year, left the OAG. To fill gaps arising from high staff turnover, during 2008 the OAG hired 33 new auditors, bringing the total number of audit staff to 83 (Republic of Rwanda OAG, 2009b).

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APPENDIX A

A.1 *Documents*

A1.1. Legal documents

The constitution of the republic of Rwanda (Republic of Rwanda, 2003)

Organic law on state finances and property (Republic of Rwanda, 2006)

A1.2. OAG strategic documents

Financial Audit Manual (Republic of Rwanda OAG, 2004a)

Strategic Plan: 2006–2009 (Republic of Rwanda OAG, 2006b)

Code of Ethics (Republic of Rwanda OAG, 2007a)

A1.3. OAG audit output

OAG Annual audit reports 2002–2008 (Republic of Rwanda OAG, 2003, 2004b, 2005, 2006a, 2008, 2009a,b)

A.2 *Interviews*

Mr. Armon, J., Senior Governance Advisor, Department for International Development (Dfid), Kigali.

Ms. Berglund, I., International Advisor, the Swedish National Audit Office, Stockholm.

Mr. Biraro, O. Deputy Auditor General, Office of the Auditor General of State Finances (OAG), Kigali.

Mr. Billing, J., Team leader of ASI support of civil service reform, Ministry of Public Service and Labour, Kigali.

Mr. De Boer, V., Economic Advisor, Delegation of the European Commission in Rwanda, Kigali.

Mr. Emasu, S., PEFA Advisor, Ministry of Finance and Economic Planning, Kigali.

Mr. Engström, L., Resident Representative, International Monetary Fund (IMF), Kigali.

Ms. Ericsson, M., Second Secretary, Embassy of Sweden, Development Cooperation Section, Kigali.

Mr. Gatabazi, T., Accountant General, Ministry of Finance and Economic Planning, Kigali.

Ms. Gårdmark, J., Deputy Project Director, the Swedish National Audit Office, Stockholm.

Mr. Hjertstrand, A., Director International Development Cooperation, the Swedish National Audit Office, Stockholm.

Mr. Kabayiza Murara, L., Public Sector Management Specialist at the World Bank (Previously director, OAG), Kigali.

Ms. Kamagaju Rutagwenda, E., Auditor General, the OAG, Kigali.

Mr. Kamurase, A., Operations Officer, World Bank, Kigali.

Mr. Kananura, P. Director, Transparency Rwanda, Kigali.

Ms. Lourenco, M. Senior Programme Manager, the Swedish National Audit Office, Stockholm.

Mr. Marara-Shyaka, P., Director of Quality Assurance, the OAG, Kigali.

Mr. Masabo, O., Director of the Integrated Support Project, Ministry of Finance and Economic Planning, Kigali.

Mr. Mbombo, M. Office of the Ombudsman, Kigali.

Mr. Mujuni Nkunda, F., Government Chief Internal Auditor, Ministry of Finance and Economic Planning, Kigali.

Ms. Mukayuhi, C., Chair of Budget Committee, Rwanda Parliament, the Chamber of Deputies, Kigali.

Ms. Mukarurangwa, I., Deputy Ombudsman, Office of the Ombudsman, Kigali.

Mr. Muragije, R., Public Exp. Specialist, Human Resources and Inst. Capacity Dev. Agency (HIDA), Kigali.

Mr. Niyigena, P., Public Sector Reform Specialist, HIDA, Kigali.

Mr. Nordstrand, L. Audit Director, the Swedish National Audit Office, Stockholm.

Mr. Rutsimba, E., Monitoring and Evaluations Specialist, HIDA, Kigali.

Mr. Ström, A., Head of Development Cooperation, Embassy of Sweden, Development Cooperation Section, Kigali.