

# **Partners in Audit**

**An Evaluation of Cooperation between the National Audit Office  
in Malawi and the Office of the Auditor General of Norway**

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For every complex issue in life,  
there is a simple, clear answer.  
... which is probably wrong.

Harold's World

## **Preface and acknowledgements**

The Office of the Auditor General of Norway (OAGN) commissioned the Chr. Michelsen Institute (CMI) to undertake this evaluation of its collaborative relationship with the National Audit Office (NAO) in Malawi to gauge achievements and to identify shortcomings. The present report presents the adopted approach and methodology, and enumerates the findings. Field work was conducted in Oslo and Lilongwe in June 2013 by a team consisting of Arne Tostensen (team leader) and Jesper Johnsen. They were assisted by Andrew Mpesi who made appointments on their behalf before arrival in Malawi.

We also wish to acknowledge the contributions and insights provided by all our respondents in Malawi and Oslo (see appended lists of interviewees) and for the time they generously shared with us. A special word of thanks goes to our quality assurance team – Lise Rakner and Odd-Helge Fjeldstad – who read a draft version of our report and offered helpful comments and suggestions.

The evaluation report is written primarily for the commissioning body, the OAGN, but also for NAO as its Malawian collaborator. Furthermore, we hope to reach a wider readership, e.g. stakeholders in government circles, civil society, the mass media and the general public. To appreciate the report's reasoning and import we have added some elements to ease the reading for the uninitiated, although they may seem elementary to the expert reader.

Feedback on the draft report was never received from NAO, despite repeated reminders. This is most regrettable but cannot be helped in the circumstances.

The usual disclaimer applies: this report does not reflect the policies or views of the OAGN, NAO or the Royal Norwegian Embassy in Lilongwe. Responsibility for its contents and any remaining errors rests entirely with the authors.

Bergen, December 2013

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## Acronyms and abbreviations

AAG	Assistant Auditor General
AFROSAI-E	African Organisation of Supreme Audit Institutions in English-speaking Africa
CABS	Common Approach to Budget Support
CIA	Central Internal Audit
CSC	Civil Service Commission
CSO	Civil society organisation
DAC	Development Assistance Committee
DAG	Deputy Auditor General
DfID	Department for International Development
DPSM	Department of Public Service Management
EU	European Union
FY	Financial year
GoM	Government of Malawi
IA	Internal audit
IDP	Institutional Development Project
IKPI	Institutional Key Performance Indicator
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
KfW	Kreditanstalt für Wiederaufbau
LTA	Long-Term Advisor
MKM	Mwenelupembe , Mhango and Company
MoU	Memorandum of Understanding
MWK	Malawi Kwacha (currency)
NAO	National Audit Office
NGO	Non-governmental organisation
OAGN	Office of the Auditor General of Norway
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPC	Office of the President and Cabinet
PAC	Public Accounts Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Finance Management
PIU	Project Implementation Unit
PRO	Public Relations Officer
PSC	Project Steering Committee
RAM	Regularity Audit Manual
RNE	Royal Norwegian Embassy (Lilongwe)
SAI	Supreme Audit Institution
SNAO	Swedish National Audit Office
STA	Short-Term Advisor
ToC	Theory of Change
US	Under-Secretary

## Executive summary

1. This report is prefaced by pointing out that Malawi's system of governance is characterised by executive dominance, and that most institutions cannot be said to be institutionalised in the sense that they adhere fully to formalised rules. This is a terrain in which it is difficult for an external actor to manoeuvre.
2. The National Audit Office (NAO) in Malawi has received support from the Norwegian and Swedish governments since 2003. But this evaluation is centred on collaborative activities with the Office of the Auditor General of Norway (OAGN) under the Institutional Development Project (IDP) during the period 2009-2012.
3. The main purpose of the evaluation is *not* to assess the performance and impact of NAO as such, but rather the extent to which the collaborative endeavour between NAO and the OAGN has contributed to enhancing NAO's performance and its functionality as an institution. Three aspects are given particular attention: (i) capacity-building, essentially the production of auditing tools (manuals) and the training of staff; (ii) institution-building in a broader sense, referring to the total functionality of NAO; and (iii) the enhancement of NAO's capability to undertake performance audits.
4. The evaluation team adopted mixed methods: perusal of secondary literature and semi-structured, qualitative in-depth interviews with a wide range of altogether 45 respondents.
5. The theory of change (ToC) method was used to assess the intervention, principally in terms of its internal logic. We found the project to be logical and fairly comprehensive, although missing three key elements such as the role of civil society, the mass media and leadership. The logic of the initial project design provided useful reflections on what would be preconditions for success. Yet, unsurprisingly given the nature of both the OAGN and NAO as technical auditing agencies, the technical aspects of audit training dominated in practice owing to their comparative advantages in that field.
6. By adding political economy factors to the equation, we were able to go from a results chain to a ToC analysis. The IDP design and objectives were in alignment with NAO's strategic plan. But the actual ToC became partial and rather narrowly focused on technical auditing aspects when the project entered the implementation phase.
7. A range of preconditions were identified which had to be addressed for effective project delivery, such as NAO's independence, strong leadership, and engagement with civil society and the mass media. However, when the project moved from design to the implementation mode the default position was to focus on capacity-building of technical audit competence. Although the OAGN was no doubt effective in strengthening audit capacity, for truly sustainable change to occur the OAGN would have had to move out of the capacity-building 'comfort zone' and address institutional and political economy constraints.
8. Aid agencies tend to promote 'isomorphic mimicry', defined as an 'adoption of the forms of other functional states and organisations which camouflages a persistent lack of function', and 'wishful thinking about the pace of progress and unrealistic expectations about the level and rate of improvement of capability'. Therefore, aid interventions that focus exclusively on formal institutions rarely succeed. Hence, they need to bring on board informal rules and structures that may be (i) complementary; (ii) accommodating; (iii) competing; or (iv) substitutive. The competing variant is particularly worrisome. Informal divergence from the

established rules occurs regularly in Malawi. It is difficult, however, to identify the actors or stakeholders who deviate from the rules, especially for outsiders.

9. One of the principal objectives of the IDP was to enhance the operational independence of NAO. The persistent lack of independence manifests itself in three main domains: (a) reporting procedures and channels; (b) budgeting; (c) recruitment and dismissal of staff.
10. The constitutional provision states that NAO shall submit reports to the National Assembly *through* the Minister responsible for Finance. However, the Ministry of Finance is an auditee of NAO and reporting to this institution raises a serious conflict of interest issue. The constitutional provision is inconsistent with the Public Audit Act No. 6 of 2003 which says that the Auditor General shall forward to the President and to the Speaker of the National Assembly reports regarding audits and reviews undertaken. In other words, the Act stipulates that the reports shall be submitted *simultaneously* to the President and the Speaker of the National Assembly.
11. NAO does not control its own budget. Drafts budgets are submitted to the Ministry of Finance which makes cuts and imposes a ceiling before tabling an amended version in Parliament for approval, as if NAO were a regular government department rather than a special accountability and oversight institution whose budget should be protected.
12. Considered a regular government department, NAO does not have authority to hire and fire personnel. It is subjected to the rules and regulations of the Civil Service Commission (CSC), which creates a host of problems. The persistent lack of NAO's independence is a salient expression of how informality in actual decision-making has thwarted action towards meeting the independence objective. The 2010 institutional assessment of NAO made specific recommendation to that effect, with political sanction from top political circles, i.e. the Office of the President and Cabinet (OPC). Yet, little action has been taken. The only plausible explanation is that other political forces, possibly in cahoots with forces internally in NAO, have sabotaged the implementation of the recommendations of the institutional assessment report.
13. Without control of its own budget and authority to hire and fire, NAO suffers from a severe capacity gap in terms of staff of all categories and the attendant skills. The vacancy rate in 2010 was 43 per cent.
14. The phrasing and terminology used in various documents regarding IDP management are confusing. The IDP is sometimes described as implemented jointly by the OAGN and NAO and sometimes by NAO alone as the project owner. In effect, the IDP was set up as an internal project implementation unit (PIU). PIUs are generally considered conducive to efficient implementation. However, separation from regular administrative structures might jeopardise the long-term sustainability of the project.
15. Following the adoption of NAO's Strategic Plan (2009–2013) a comprehensive institutional assessment of NAO was made in 2010 by the Department of Public Service Management (DPSM). It pinpointed a number of shortcomings and challenges that hampered NAO's functionality and made a series of recommendations to overcome them. Only a few of the recommendations were acted upon.
16. In assessing the achievements of the IDP, we have applied standard evaluation criteria: (a) relevance; (b) effectiveness; (c) efficiency; (d) impact; and (e) sustainability. However, as a precursor to our discussion of these criteria we



made a distinction between capacity-building and institution-building. The IDP had institution-building at its core. Yet, most documents emphasised capacity-building as the principal activity. Capacity-building is a necessary precondition in an institution-building project, because institutions consist of individual staff whose capacity and skills to perform tasks are crucial. But capacity expansion is far from an adequate precondition. Institution-building goes beyond capacity-building.

17. An institution may be defined as a pattern of relatively stable social relations that define the rules of the game. Capacity-building can be defined as a process whereby individual members within an institution enhance their skills in a particular field of activity to buttress their institution with a view to achieving its goals. By contrast, institution-building entails instituting proper systems and procedures to ensure conformity and predictability of behaviour on the part of the increasingly skilled staff, thus creating an enabling environment for them. Apart from skills, tools, procedures and various types of resources, the performance of staff may be affected by an institutional culture as reflected in attitudes, mindsets and incentives.
18. The overall assessment is that OAGN support was highly relevant. However, we add that there was scope for increasing relevance by choosing the most appropriate activities for the long-term effectiveness and sustainability of NAO. For example, the relevance of the overriding emphasis on performance auditing in the last couple of years is questionable because regularity auditing may to some extent have been out-crowded as a result.
19. The relevance criterion has two dimensions. One is the overall relevance of supporting NAO as a central actor in Malawi's national integrity system and a nodal point for the integrity of the country's public financial management system. The other dimension is whether the specific objectives and activities under the IDP have been relevant to enhancing NAO's capabilities as a SAI. As a selective operationalisation of NAO's Strategic Plan with accompanying funds to implement it, the IDP was highly relevant to the thrust of NAO. However, we question whether the overshadowing emphasis on capacity-building of technical auditing competence, in particular performance auditing, was the most relevant with a view to reaching the institution-building goal.
20. We emphasise that capacity goes beyond pure auditing capacity to include internal organisational capacity as well as capacity (and ability) to deal with the external environment. Therefore, we prefer the concept of capability defined as the ability to undertake and promote collective actions efficiently. The concept encompasses the administrative and technical capacity of staff, but is broader than capacity by including the institutional mechanisms that provide the ability to convert capacity into coherent action. An institution's capability is a combined function of its capacity *and* ability. Whereas technical capacity can be built within an institution such as NAO, its ability to actually use the enhanced capacity is largely conditioned by its external environment.
21. Effectiveness means the extent to which the development intervention's stated objectives have actually been achieved, or are expected to be achieved within the time span of the intervention. Overall, the evaluation team found that OAGN support has not been effective in reaching its stated goals. Capacity-building efforts to strengthen auditing competence were indeed effective, but they were not in themselves sufficient to produce an effective institution.
22. A baseline study was purportedly undertaken at the beginning of the IDP against which achievements were to be gauged. However, the so-called baseline study

was poorly done. To call it a baseline study is a gross exaggeration. Its poor quality made it very difficult for the evaluation team to consider progress measured in terms of indicators at an acceptable level of precision. Indeed, it lowered the evaluability of the project.

23. The lack of clear milestones and targets for the organisation's institutional key performance indicators (IKPIs) was very problematic. Even more problematic was the lack of data. The evaluation team experienced significant problems in getting basic performance data from NAO. Despite promises and repeated reminders detailed monitoring information regarding the IKPIs was not made available to the evaluation team.
24. The notable achievements of NAO reported by interviewees were as follows:
  - Production of a regularity audit manual and a draft performance audit manual;
  - Training of NAO staff in the use of audit manuals;
  - Training of NAO staff in the use of ICT;
  - Reduction of the backlog of audit reports;
  - Production of four performance audit reports.
25. By means of secondary data from sources other than NAO, we were able – up to a point – to compensate for the lack of performance data emanating from NAO itself. These sources included the transversal reports of AFROSAI-E, which suggested that starting from NAO's low level in 2009 it was unrealistic to reach the set goals within the time horizon of the intervention. The two other secondary sources – Global Integrity scores and Public Expenditure Financial Accountability (PEFA) scores – tended to confirm Malawi's low performance level.
26. Efficiency is a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. Owing to lack of detailed information, we were compelled to treat this criterion cursorily. The 2011 mid-term review pointed to weaknesses that ostensibly reduced the efficient use of resources.
27. Impact denotes the long-term effects of an intervention, positive and negative, direct or indirect, intended or unintended. The impact criterion is broken down into: (i) immediate output; (ii) intermediate outcome; and (iii) long-term durable effect. Given the short duration of the intervention (five years only) relative to its magnitude and institution-building ambition, it is premature to measure impact with any appreciable precision. Five years is a short period in the larger scheme of things. It is a flaw of most aid interventions that their duration is too short. Institution-building is a long-term undertaking. It is not unreasonable to think in terms of decades rather than years when such ambitious projects are embarked upon.
28. Closely related to impact, sustainability expresses the continuation of benefits from a development intervention after significant assistance has been discontinued, the probability of continued long-term benefits, and/or the resilience to risk of the net benefit flows over time. Again, the time factor is of critical importance. Hence, it is feasible to assess sustainability only a considerable time after the intervention has been completed. The ratio of IDP to GoM funding – hovering around one-third – is indicative of the low sustainability of the IDP.
29. The preconditions for increasing NAO's effectiveness centred on two main issues: (a) weak leadership; and (b) a lack of independence/autonomy. Redesigning a ToC for a new phase would mean seeking to remove these constraints by expanding the project to work directly on leadership support and stakeholder mobilisation for legislative change, notably civil society and the mass media.

30. In 2011 tension mounted between the OAGN and NAO, centring on two issues in particular:
- Suspicions about financial irregularities within NAO which were later confirmed in an audit report by Deloitte. This related to shortcomings in NAO's internal financial management in general, not specifically to the implementation of the IDP. But it also affected the IDP, including an irregular 'loan' extended from the IDP to a DfID-funded project under NAO's responsibility. These serious irregularities made the OAGN become concerned about its own reputation as a SAI;
  - Dissatisfaction on the part of the OAGN with NAO's reporting and lack of follow-up on agreed activities. Between short-term missions NAO repeatedly failed to take action which left critical matters unattended.
31. Two Malawian consultants were hired for stints of one year each with a view to assessing and strengthening the line functions of financial management, planning and monitoring within NAO. They lamented the lack of commitment on the part of NAO's management, especially the lack of champions for change.
32. Notwithstanding frictions in the past, both the OAGN and the RNE would like to see the resuscitation of the collaborative relationship between the two sister SAIs. The RNE has set two main conditions for the resumption of funding: (a) repayment of monies that were borrowed from the IDP; and (b) streamlining of the internal financial management system within NAO. The first condition has already been met but the second one is bound to take more time.
33. Recent developments are encouraging. A new Auditor General has been appointed. An audit of NAO has been commissioned, to be undertaken by the KPMG. It is expected to provide an up-to-date report on NAO's functionality, pointing out strengths and weaknesses. It will no doubt provide important inputs into a diagnosis of NAO and suggest pathways out of its present predicament.
34. Two mutually exclusive options present themselves for the future.
- (a) Termination of the erstwhile collaborative relationship between NAO and the OAGN in whatever form.** The justification of this extreme option would be the perception of NAO as an incorrigible institution. This option would mean that Malawi be dismissed altogether as a partner country generally and simply be dropped as an aid recipient. In the circumstances this option would hardly be open.
- (b) Resumption of the previous collaborative venture, albeit on certain terms and conditions.** The justification of this accommodating option would be based on a perception that NAO and Malawi broadly speaking are not to be abandoned. However, this second option would have several elements and conditions that need to be fulfilled.
35. Pursuant to the second option the following recommendations are made:
- (a) A thorough **status report** should be compiled. It should be based on existing reviews and evaluations, as well as a fresh collection of information. This exercise should revisit the 2010 institutional review report and draw on the forthcoming audit of NAO as a useful source of updated information. The status report should be done jointly by the OAGN and NAO to ensure mutual ownership; both partners *must* buy into this status report as a true reflection of the state of affairs. Care should be taken to be frank so as to avoid self-deception which would later prove untenable when encountering challenges. There is a risk that misguided diplomacy might sweep some problems under the carpet.

- (b) Based on the status report, a detailed **baseline** should be established with specific data on relevant dimensions to be addressed in a new intervention. Again, this should be a joint exercise by the OAGN and NAO. The risk is that the baseline may be sub-standard as was the case in the previous phase, which substantially lowered the evaluability of the present intervention.
- (c) Beyond the status report and the baseline study, a **new project document** should be designed. It should be informed by a redesigned theory of change. Special attention should be paid to the broad political economy context and the formality/informality divide in decision-making processes. Furthermore, the new project should specify goals and objectives in operational terms so as to facilitate monitoring of progress, preferably by means of qualitative or quantitative indicators. The project document should emphasise *institution-building* rather than mere *capacity-building* in a technical sense. If the OAGN as a technical auditing agency does not possess the requisite expertise in institutional development, such expertise *must* be brought in from elsewhere. The risk is that the project document might once more be too narrowly formulated, leaving out significant components.
- (d) In the interest of institution-building, priority should be given to the **use of IT** in internal communication within NAO, e.g. a server with an archival function. Similarly, **internal financial management and accounting** should feature high on the agenda, as should the streamlining of decision-making procedures and processes. Attention should also be assigned to leadership. The risk is threefold: (i) budgetary constraints may render investment (including maintenance provisions) in IT hardware and software infeasible; (ii) internal resistance may frustrate efforts to putting in place a functioning, transparent financial management system; (iii) the top leadership may be constrained by the existing entrenched institutional culture so as to jeopardise its manoeuvrability towards putting the NAO house in order.
- (e) Accord high priority to **enhancing the independence** of NAO. This is not only an objective in its own right but equally much a contextual factor that bears decisively on NAO's performance across the board. Towards that end, a multi-pronged approach should be adopted. Advocacy in conjunction with the Public Accounts Committee (PAC) directly vis-à-vis the executive branch of government is relevant. In addition, indirect advocacy through civil society is likely to be effective. So is advocacy through the mass media. The PAC, civil society and the media all serve watchdog functions on behalf of the taxpayers and would therefore be prepared to forge an alliance. The public relations officer would play a key role in this endeavour. The risk is that resistance from the executive might block efforts, as has been the case to date.
- (f) Adopt a long **time horizon** for the new intervention, indicatively for a period of two decades. It is a robust lesson learned from development projects that institution-building is time-consuming, especially when starting from a low base. It is acknowledged that a commitment for such a long period is legally impossible in the Norwegian political system. Formal agreements are always predicated on parliamentary approval. However, collaborative agreements can contain long-term commitment as a statement of intent, with specified milestones to be reached at certain intervals. As part of its monitoring system the project document should give clear signals about action to be taken in case of non-achievement of milestones. In the same vein, the project document should comprise an exit strategy. The main risk is that the

Norwegian aid authorities may take exception to such a long-term commitment. Moreover, the specification of milestones may be vague and the suggested exit strategy unclear.

## **1. Introduction and background**

As a preface to the specific substance of this report regarding the support of the Office of the Auditor-General of Norway (OAGN) to the National Audit Office (NAO), a general comment is warranted about the institutional terrain and make-up of the Malawian polity (see Englund 2001 for an overview). First, the country's governance system is characterised by extreme executive dominance (Dulani 2007) at the expense of parliament which is correspondingly weak (Patel and Tostensen 2007), while the judiciary has been relatively independent (Gloppen and Kanyongolo 2007). Institutions of restraint, such as the Anti-Corruption Bureau, the Ombudsman and NAO, are all constrained by executive dominance.

Second, most institutions cannot be said to be institutionalised in the sense that they adhere to formalised rules that ensure a modicum of predictability in decision-making (see details in sections below). An illustrative case is the sham budgetary process (Rakner et al. 2004). Similar issues are discussed in a report by Wang and Rakner (2005) with specific reference to Supreme Audit Institutions (SAIs), including NAO. Malawi is a feckless democracy where accountability mechanisms are weak. Against a background of low salaries, the incentives to 'grab' public resources for personal gain are strong (Søreide et al. 2012). Institutionally, Malawi is seen by the donor community as an 'enfant terrible', hobbling along and struggling with basic institutional issues.

Third, the political change of guard at the top of the system through elections does not seem to make much difference. In many public institutions and agencies leading personalities are simply recycled. Even so, the civil service and other institutions comprise many competent, well-meaning and dedicated professionals who give grounds for hope. The hope placed in these professional cadre combined with a normative aid imperative to assist an extremely poor country such as Malawi, induces donors to commit to interventions that, on the face of it, may not have great prospects of succeeding.

This rather discouraging backdrop – however cursory – suggests two main options for an aid agency: (a) to consider Malawi as 'basket case' which is not worth investing in; the return to investment would be much higher elsewhere. The alternative option would be (b) to move cautiously into interventions after a careful assessment of risks and pitfalls with attendant exit strategies in case of serious contingencies. We shall return to these options in the concluding section on lessons learned and recommendations.

### **1.1 Structure of report**

This evaluation report is divided into eight main sections. After the introduction we set out the methodology we have applied. The third section clarifies the results chain and theory of change underpinning the support provided by the OAGN. Thereafter, in the fourth section, the importance of broader political economy factors in Malawi for the

functioning of NAO is analysed, including the formal/informal distinction that characterises institutional structures and behaviour; and the bearing of the persistent lack of NAO's independence on its performance. The fifth section evaluates the OAGN support to NAO, discusses the achievements and shortcomings of the collaborative venture in terms of the standard OECD/DAC criteria, with emphasis on the relevance and effectiveness criteria. The sixth section redesigns a theory of change for possible future application. The seventh sections looks to the future and the way forward while the final and eighth section discusses lessons learned and advances recommendations.

## **1.2 Origin of NAO/OAGN collaboration**

The National Audit Office (NAO) in Malawi has received support from the Norwegian and Swedish governments since 2003, channelled through the Royal Norwegian Embassy (RNE) in Lilongwe. Thus, at the time of this evaluation the collaborative relationship has lasted nearly a decade. Up until the end of 2007 the Swedish National Audit Office (SNAO) served as NAO's technical, backstopping and institutional partner. These initial phases I and II were funded jointly by Norway and Sweden. Phase I was essentially a preparatory needs assessment, on which phase II was based as laid down in the project document *Institutional Development Cooperation between the National Audit Office of Malawi and the Swedish National Audit Office*, Phase II, dated 5 December 2003. There appears not to have been any significant disagreement or dispute between the two sister institutions that caused withdrawal by SNAO (Aarnes 2007). Rather, there appears simply to have been a notion within SNAO that its involvement would come to an end at that particular point in time. Hence, the 'baton' was handed over to the Office of the Auditor General of Norway (OAGN) to carry on the collaborative venture. From then onwards Norway has been the sole donor to the IDP.

On 30 November 2007 the OAGN signed a Memorandum of Understanding (MoU) with NAO which entered into force upon signature. Article 1 of the MoU defined the scope of cooperation and stipulated that the assistance provided for institutional capacity development would be long term, albeit without specifying the period more precisely. However, Article 6 said the MoU would remain in force until 31 December 2012, unless otherwise agreed. With regard to the specifics of cooperation, reference was made to a project document to be prepared and agreed to by the two parties. The standard qualification was inserted in Article 3 that the OAGN would prepare, implement and monitor the cooperation as laid down in the project document, "subject to Norwegian parliamentary appropriation of funds..."

An interim 18-month period lasted from the signing of the MoU until the entry into force of the fully-fledged project document in mid-2009. The RNE agreed to fund this effective extension of phase II to avoid interruption of activities. This period was partly spent on continuing the activities initiated when SNAO was involved – most significantly the preparation of NAO's Strategic Plan 2009–2013 – and partly to

prepare the project document intended to guide future activities. The said project document – *Project for Institutional Strengthening of National Audit Office of Malawi (NAO) in Cooperation with the Office of the Auditor General of Norway (OAGN)* – was agreed upon in May 2009, and covered the period July 2009 until June 2012. This evaluation is centred on collaborative activities under that project, generally referred to as the Institutional Development Project (IDP).

While donors other than the Royal Norwegian Embassy (RNE) have also entered the picture, their interventions have been separate from that of the IDP. The UK Department for International Development (DfID) has specifically supported regularity auditing of local councils across the country. The German agency Kreditanstalt für Wiederaufbau (KfW) has for some time considered supporting NAO but nothing has materialised to date. The European Union (EU) has supported the construction of a training centre adjacent to the NAO office building. Apart from direct support for NAO, the donors liaise among themselves within the general donor group, especially with regard to budget support – the Common Approach to Budget Support (CABS) – and public finance management generally. In that context NAO may feature marginally on the agenda. There has been no donor coordination group specifically for NAO support. Donor coordination has largely been informal and *ad hoc* but there seems not to have been serious donor coordination problems.

## 2. Approach and methodology

This section presents and elaborates the team’s understanding of the purpose, role and subject matter of the evaluation, first by outlining our understanding of the evaluation questions, and second by describing our view of the functions of Supreme Audit Institutions (SAIs) in society. It pinpoints a set of important issues and dimensions that warrants particular attention. The third part of this section sets out the overall evaluation design, proposed data collection methods and analysis most suitable to providing evidence-based answers to the evaluation questions, based on comprehensive, reliable and corroborated information. In general, our approach and methodology are aligned with the guidance provided by the OECD/DAC, both with regard to evaluation design, implementation and quality assurance.

The ToR statement that “[t]he starting point for the evaluation should be NAO’s performance and impact in relation to its overarching goal of delivering quality audits, thereby promoting transparency, accountability and good governance in the management of public funds” needs to be seen in light of the overall evaluation question. The main purpose of this evaluation is *not* to evaluate the performance and impact of NAO as such, but rather the extent to which the collaborative endeavour between NAO and the OAGN has contributed to enhancing NAO’s performance. In order to successfully do so, the evaluation team has attempted to use objective indicators of what good NAO performance is (as mentioned in the above quote), and how it has evolved over the period of support.



With regard to the overall scope of the evaluation, three aspects of the collaborative venture between the two SAIs have been given particular attention: (i) capacity-building: essentially the production of auditing tools (manuals) and the training of various categories of staff; (ii) institution-building in a broader sense, referring to the total functionality of NAO, including the establishment of appropriate procedures and processes, routines and mechanisms, including the use of IT towards that end; and (iii) the enhancement of NAO's capability to undertake performance audits. The combined effects of these three aspects of support would have enhanced the capability of NAO to discharge its duties more competently, effectively and efficiently. We have endeavoured to ascertain whether or to what extent that ambition has come to fruition.

As supreme audit institutions (SAIs) the Offices of Auditor General serve key accountability functions among state institutions of governance. Vertical accountability refers to the relationship between the governed and their elected representatives in a democratic polity. It centres on elections whereby the voters hold their representatives to account at regular intervals. Horizontal accountability, on the other hand, pertains to the relationships between key institutions of governance such as the Executive, the National Assembly and the Judiciary in a system of checks and balances. In that set-up, the Office of Auditor-General is tasked to ensure that public resources are spent according to the electoral and administrative mandate, i.e. that the use of funds are consistent with stated objectives and that corruption is avoided. SAIs perform such functions mainly vis-à-vis the executive arm of government, i.e. the civil service broadly speaking, including parastatals. In other words, the purpose of auditing is to ensure (a) the proper and effective use of public funds; (b) sound financial management; (c) the proper execution of administrative activities; as well as (d) the communication of information to public authorities and the general public through the publication of impartial audit reports.

The degree to which SAIs fulfil their established functions depends on institutional capabilities, which, in turn, are determined by their mandate, autonomy and capacity. This evaluation intended to ascertain whether or to what degree the collaborative agreement between the OAGN and NAO had contributed to enhancing the capabilities of the latter and thus enabled it to perform its horizontal accountability task.

The legal mandate of NAO is laid down in the Malawi Constitution and the Public Audit Act of 2003. Otherwise, NAO is guided by the precepts adopted by the International Organisation of Supreme Audit Institutions (INTOSAI) of which NAO is a member. INTOSAI is the global umbrella organisations for all SAIs; it promotes common auditing standards for its 188-strong membership. NAO is also a member of the regional African Organisation of Supreme Audit Institutions (AFROSAI) which encompasses both AFROSAI-E for English-speaking countries and AFROSAI-F for French-speaking countries. NAO relates first and foremost to AFROSAI-E. INTOSAI issues a series of International Standards of Supreme Audit Institutions (ISSAIs) with

the basic prerequisites for the proper functioning and professional conduct of SAIs and the fundamental principles of auditing public entities.

In the first instance, this evaluation is guided by an overall analytical approach to the subject matter that addresses the inherent thinking embodied in the project design. Second, it applies a more specific methodology that comprises the wider Malawian context and the methods or techniques used to gather information.

When collecting information we have adopted mixed methods. The concepts of mixed methods and triangulation are often used interchangeably. Although triangulation can be understood to mean the use of more than one method or source of data in the study of a social phenomenon, it is better defined as a broader principle than mixed methods, not just focusing on design, but also on the analysis and interpretation of data. Essentially, triangulation is about shedding light on issues from different angles or vantage points to overcome the problems that stem from potential biases in studies relying upon a single theory, a single method, a single set of data, or a single investigator. All methods will benefit from subjecting findings to triangulation – or cross-check – with other data sources. With an emphasis on qualitative methods for primary data collection, and triangulation of findings with written records and existing quantitative survey data, to the limited extent they were available, we were able to arrive at fairly robust inferences.

A plethora of project documentation and administrative records (MoUs; memoranda; a mid-term review; audit reports; other reports of variable nature, legislation, etc.) was perused and yielded much information that was helpful in substantiating our findings about achievements and shortcomings (see list of references). It should be noted, however, that some documents were confidential. Hence, they are not listed.

Beyond acquiring secondary data by perusing existing documents, we conducted semi-structured, qualitative in-depth interviews with a wide range of respondents (see appended list of respondents). These were based on interview guides prepared in advance to ensure a modicum of uniform coverage. Information from such interviews was our principal source of primary data. Inter-subjective validation was used to ensure corroboration of information derived from different sources. In most cases, this was feasible but in some cases the responses diverged. We spent nearly three weeks interviewing key respondents in Oslo and Malawi in June 2013, the great majority through face-to-face interaction, but some by phone and e-mail. Altogether 45 persons were consulted. Unless other sources are stated, our findings are based on the testimonies of those respondents.

We decided against using focus group discussions as a method. In most circumstances the dynamics of focus group discussions would yield valuable information beyond that emanating from individual informants. However, the institutional cultures in Malawi, including in NAO, tend to be hierarchical which may marginalise subordinate staff when senior staff are present and thus undermine the valuable discussion dynamics usually associated with focus groups. Besides, focus

groups would have been too time-consuming to organise within our time constraints. Similarly, we did not find it feasible to conduct a quantitative survey, not even with a small sample size. The resource constraints in terms of time and money did not allow for a time-consuming and costly survey. Furthermore, we consider survey methods inappropriate for the task at hand. Whatever the data collection methods applied, the various data were triangulated to buttress the reliability and validity of our inferences.

The distinction between capacity and ability, and the related concepts of 'sphere of influence' versus 'sphere of concern' is useful for a sound judgement of the cooperation project. This distinction is based on the observation that the complexity of the development process makes it extremely difficult to assess impact (especially when seeking attribution). The ambition is to measure behaviour outcomes and changes on the part of the direct beneficiaries rather than impact. For example, the assessment of the quality of audit reports is entirely within the sphere of influence of NAO and the cooperation project, whereas the follow-up and use of those reports by other institutions are not, e.g. by auditees or Parliament. Still, we did not confine our scrutiny to the sphere of influence only. Rather, we tried to trace the follow-up of the performance audit reports by the audited institutions in question with a view to ascertaining the anticipated long-term effects.

### **3. Theory of change analysis**

The theory of change (ToC) method can be used both as an evaluation and as a design tool (Johnsøn 2012). This section uses ToC for the purposes of evaluation. Looking towards the future, section 6 below uses the ToC method to propose a redesign of the IDP for any potential resuscitation of collaboration.

The evaluation criteria of relevance and effectiveness relate both to the ToC of *ex ante* project design and to actual practice during implementation. The purpose of this section is not to deliver all known facts and final judgement on the relevance and effectiveness of the IDP. This is attempted in section 5 on achievements. Rather, the ToC analysis provides key observations in relation to the project logic, which are then supplemented with data on performance later in the report. Constraints to project performance stemming from the political economy context are discussed briefly in this section but, to avoid duplication, elaborated upon in the political economy analysis below.

Key questions on relevance relate to (a) issues of alignment, i.e. whether the OAGN logic for achieving results was aligned with the logic of NAO; (b) whether the project was pursuing the right objectives; and (c) whether there was an internal logic to the project, i.e. reasonable assumptions that the proposed activities could in fact lead to the stated goals. Effectiveness questions centre on the extent to which the goals were achieved. Such questions are answered mainly by comparing progress towards stated objectives, but a theory of change analysis can provide plausible explanations

of good or bad performance, by adopting a more holistic perspective than a somewhat narrow focus on individual indicators.

This section uses three fundamental concepts that are often defined in different ways. Therefore, our definitions of these concepts are provided from the outset of this section:

- *Results chain*: A result chain is a way to illustrate the causal flow between inputs, activities, outputs, outcomes and expected impact for any given intervention. They are useful, simple exercises for displaying the (assumed) internal logic of the project design and expected causal pathway of change, but they often end up being too 'sterile' and ignoring a number of important factors in the external environment whose absence might cause this pathway to break down (Johnsøn 2012: 3);
- *Theory of change*: A ToC is an analysis of how and why an initiative works (Funnell and Rogers 2011: xix). The ToC methodology was developed to explore behaviours and outcomes that are not easily measurable. Hence, it is well suited to the governance and anti-corruption realms (White 2010). A ToC is based on a causal logic, but it is not just about building a results chain (showing, for example, how an activity leads to an output). It goes further and tests this logic by insisting on a plausible explanation ('the because') of the causal pathway. The logic is as follows: if X happens, then Y will follow, because predetermined preconditions have been fulfilled. A ToC makes explicit underlying assumptions about how change happens (Ober 2012). The ToC method is a way of responding to the increasing public pressure for evidence of impact and for attribution of outcomes to a specific intervention. This is difficult in governance, accountability and anti-corruption work because of the non-attributable nature of the intervention (outcomes are a result of the work of multiple projects and actors funded by multiple donors, in cooperation with governments and civil society), and the complex character of the end goal (good governance, accountability and integrity are abstract, multi-dimensional goals). Building a good ToC is a useful first step in accounting for impact (White and Phillips 2012);
- *Preconditions for change*: Preconditions are factors that must be present for the desired change to happen. They go beyond just being general statements on 'assumptions' to specify what will be required for a specific activity to have the desired effect (Johnsøn 2012: 3).

The project logic is first analysed as presented in the project documents at the design stage. Then, the features of this design are compared to the actual implementation and 'ToC thinking' observed by respondents in Malawi. Potential disjunctures between design and reality are identified, and the implications of such deviations from planned activities are explained.

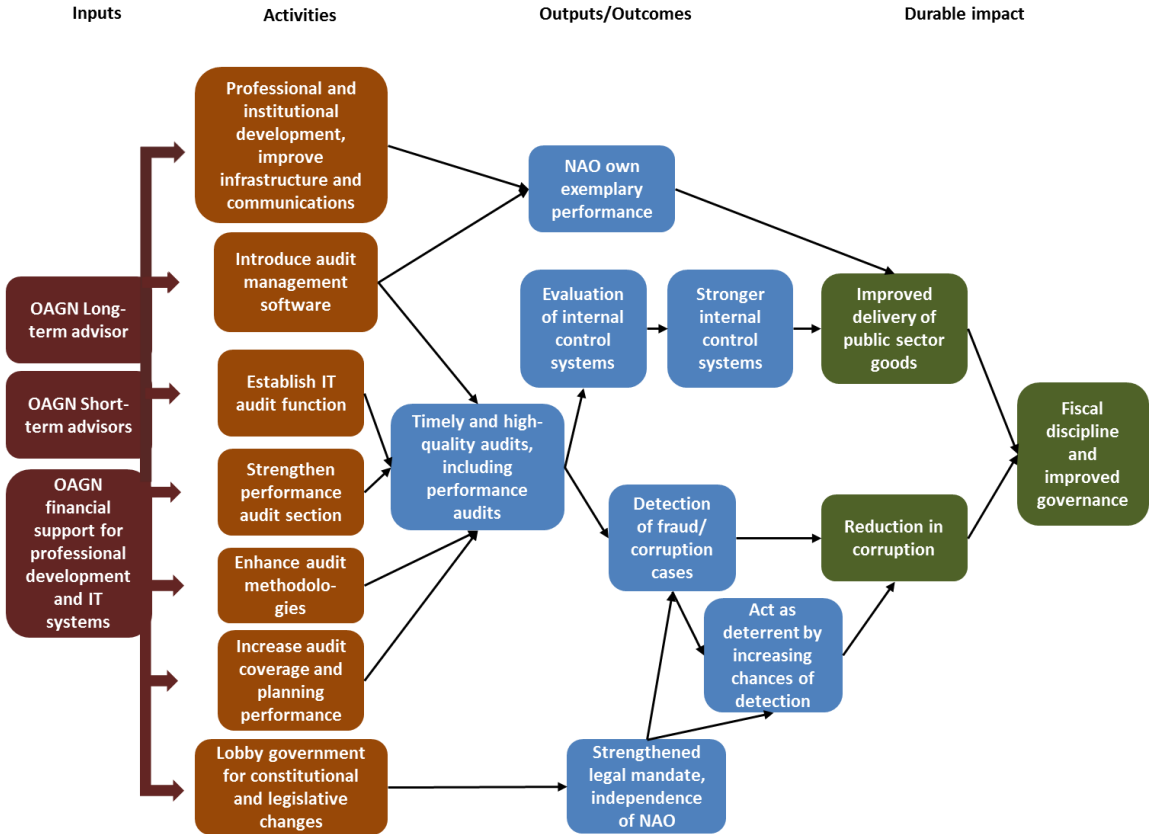
### 3.1 Initial results chain underlying OAGN support

First, an analysis is provided of the logic inherent in the project document for the OAGN support. This does not constitute a fully-fledged theory of change, but it has been possible to reconstruct a simple results chain. This results chain was evidently shared by the OAGN and NAO in the inception phase for verification purposes.

Any aid or other type of intervention is based on notions of how change will be produced as a result of the stipulated inputs and activities, i.e. expectations about causation and attribution (or ‘causal beliefs’) in societal change along a causal chain. Project documents typically contain descriptions and sequences of inputs, events and activities that are expected to lead to particular desired outcomes. Every project or intervention is packed with beliefs, assumptions and hypotheses about how change happens. These assumptions are often only implicit.

The figure below depicts graphically how we have reconstructed a result chain that – largely implicitly – has informed the collaborative relationship and shaped the perceptions of the two partners’ expectations of results.

Figure 1: The initial results chain



In general, we found the project logic presented in the design documents (graphically summarised in figure 1) to be logical and relatively comprehensive. Many important preconditions for success were identified, such as the need for constitutional changes and NAO’s own exemplary performance. We would have wished that the role of civil

society, mass media and the importance of leadership had been more fully integrated into the project design, i.e. not just stated as important factors but actually operationalised by having dedicated resources and activities in these areas. They are the three key missing pieces in the result chain. The fact that such important assumptions were stated but not actively addressed as part of the project design, meant that we could not depict a full ToC, but only the core results chain.

The team used the time spent interviewing in Malawi and Norway to test our understanding of this results chain, and whether the logic depicted above was recognised by interviewees. We also used the basic framework to identify potential shortcomings in the project design that may have hampered the execution of the project, and verified whether implementation practices basically followed the design logic. A key question was how the different essential components of the results chain above were prioritised. It quickly emerged that most inputs were dedicated to capacity-building activities for strengthening the audit functions, initially regularity auditing and later performance auditing. Thus, although the need for strengthening the legislative framework and improving NAO's own performance (including its internal financial management) were key features in the project design, they were not prioritised during implementation. For the audit functions, a weak spot in the project logic was the relationship with other government actors, in particular internal audit (IA) functions and heads of MDAs. As illustrated in the results chain, the function of a SAI is not just to be a 'fault-finder', but to improve systems and thereby service delivery. This can only be achieved via a collaborative relationship with auditees and internal audit units. No project activities had been planned to strengthen such relationships.

A common weakness for most aid interventions is the leap presumed to be made from outputs and outcomes to durable impact and development goals, i.e. between the blue and green boxes in the figure above. This has been called 'the missing middle' (Johnsøn and Mason 2013). However, it is in the interface between those types of effect that a host of intervening variables tend to 'contaminate' the process. These variables of 'contamination' are most often of a political nature. Therefore, the road from output and outcome to sustainable impact is usually long and convoluted.

Another related key question was to assess whether the project logic was too myopic, in the sense that it focused attention merely on the two collaborating institutions so as to render the project a predominantly technical exercise while neglecting the broader political-economic environment. Constructive engagement with civil society and strong leadership are preconditions for making many of the leaps from outputs to outcomes. This necessitates moving beyond a focus on horizontal accountability to appreciating the importance of vertical accountability. However, these issues appeared to be blind spots in both project design and implementation.

In sum, the logic of the project design, illustrated in the above results chain, provides useful reflections on what would be preconditions for success for the OAGN/NAO collaborative relationship. Unfortunately – yet unsurprisingly given the nature of both the OAGN and NAO as technical auditing agencies – the technical aspects of audit training dominated in practice during implementation. Their comparative advantages lied in that field. Furthermore, already from the design stage civil society engagement, mass media and leadership support were blind spots.

### 3.2 Reconstructing the theory of change

The fieldwork enabled the team to test the results chain of the project design above, and to understand how the actors in charge of implementation articulated, largely implicitly, their own ToC. By adding political economy factors to the analysis, we were able to go from a results chain to a ToC analysis. Although the project design did not fully articulate a ToC, there are always unarticulated ToCs underlying any purposeful action. However, if different actors have competing ToCs the results might be undermined. By implications, the ToCs of the OAGN and the NAO need not necessarily be the same. If the ToC of the OAGN is unclear or unarticulated this increases the risk that NAO is working on a ‘parallel track’.

The key questions of concern to reconstruct the ToC(s) underlying the collaborative project between the OAGN and NAO were as follows:

- What did actors consider important results, how could the OAGN contribute, and what role was NAO expected to play in promoting the desired change?
- Was the initial ToC – implicit or explicit – realistic?
- Was the initial ToC too restrictive and too simplistically confined to the two collaborating institutions?
- Was the broader political-economic environment taken into account in a complex ToC in order to gauge how external factors might bear on the functionality of NAO?
- How had the underlying ToC influenced the performance of the project?

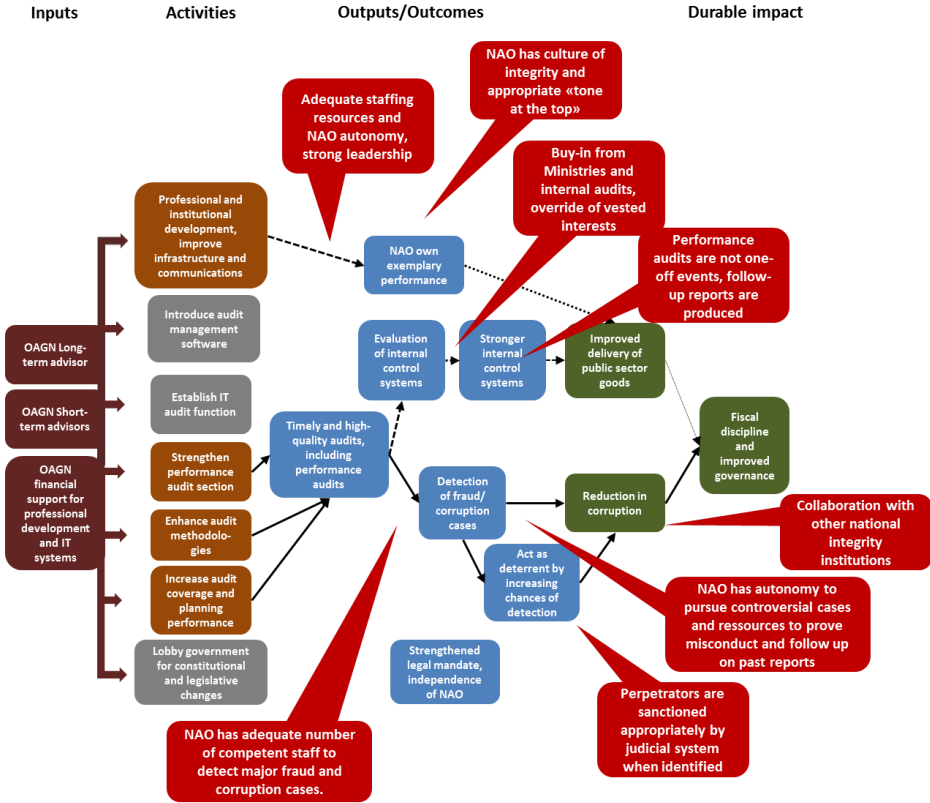
The IDP design and objectives were in alignment with NAO’s own strategic plan. Thus, in theory they should have similar ToCs and the relevance of the IDP support should be highly relevant. However, as illustrated in figure 2 below, the actual ToCs for both the IDP and NAO became partial and rather narrowly focused on technical aspects of auditing when the project entered into implementation mode. It is impossible to know whether this process was initiated by NAO or the IDP, but it is clear that this was made feasible *inter alia* due to the lack of a clear ToC and associated indicators with milestones and performance targets for non-audit activities as part of the IDP.

The grey boxes in the figure indicate activities that were not done or prioritised, which resulted in a lack of contribution towards the overall goal attainment (illustrated by a lack of arrows, or dotted arrows in cases where some but not all necessary activities

were performed). This meant that a number of key preconditions for success were not addressed. These we found to impede the effectiveness of NAO, and reduce the contribution by the OAGN. Under-prioritised activities (grey boxes) translate into unfulfilled preconditions (red boxes). In addition, missing project components, in particular civil society engagement, mass media and leadership strengthening, were also unfulfilled preconditions.

Many unmet preconditions centred on NAO’s relationship with other stakeholders, for example the internal audit units. Every government department has an internal audit function organised through the Central Internal Audit (CIA). Ideally, external auditing by NAO should be complementary to the activities of the CIA and to some extent build on the work of the latter. The institutional assessment report found that such coordination was weak or non-existent (Republic of Malawi 2010: 11). Some of our key informants made dismissive, even contemptuous, remarks about the CIA as ‘useless’ and ‘corrupt’. Whatever the merit of such perceptions, they do not augur well for closer liaison between NAO and the CIA. The importance of incorporating external stakeholders in the project ToC is further discussed in the ToC design section.

Figure 2: A reconstructed theory of change



In short, the project documentation pointed to a range of important constraints that had to be addressed for effective project delivery, such as NAO’s independence, strong leadership, and engagement with civil society and the mass media. However, when the project moved from design to implementation mode the default position was



to focus on capacity-building of technical audit competence. Although the IDP project was no doubt effective in strengthening audit capacity (which is a significant achievement, see section 5.3 for details), for truly sustainable change to occur the OAGN would have had to move out of the capacity-building ‘comfort zone’ and address institutional and political economy constraints. As shown in the figure above, although the OAGN project managed to strengthen work processes and outcomes around fraud detection it has not managed to remove the many preconditions for translating increased capacity into sustainable results. Admittedly, this could not realistically be expected in a few years, but the team found few purposeful initiatives taken to set the process in train.

### 3.3 Summary

The project design of the IDP was *relevant* for the task at hand, and well-informed about the key enabling and constraining factors of the project, albeit weak on the monitoring and evaluation framework. Nevertheless, the key constraints or assumptions that were identified were not addressed in a comprehensive manner. Details on how better to engage with civil society, the mass media and other relevant actors in the PFM system, or to increase the independence of NAO, were few and far between. The project design also did not seek to mitigate the observed leadership challenges, which related to NAO’s own performance. In short, although the design was relevant it could not be categorised as a fully-fledged ToC. This, from the outset, raised questions as to whether the project would be able to meet its objectives, i.e. the *effectiveness* of the project.

During implementation, the implicit ToC for the IDP appeared to have narrowed. The focus became technical capacity-build regarding auditing. This in practice reduced the relevance of the project, a point that is further explained in section 6. This focus on technical capacity was no doubt aligned with the desires of NAO, but was nevertheless a damaging disjuncture in the project design. The effects of this disjuncture were unsurprisingly that although the IDP was effective in improving the technical skills of auditors, reducing the audit backlog and building up a functioning performance audit unit, the project did not leave behind a stronger functional institution. In other words, the sustainability of achieved results is poor. It is important to stress that the OAGN itself in its project document had not advocated an overly technocratic focus. The OAGN was not unaware of the importance of the political-economic environment and how it might impose constraints on the project. Nevertheless, the OAGN was unable to navigate the political economy of Malawi, and what had been raised as important assumptions for success remained blind spots in project delivery, ultimately reducing effectiveness.

## 4. The political economy context in Malawi

The wider context of the NAO/OAGN venture was and remains critical. To some extent the IDP theory of change (see section above) took cognizance of its context by

taking on board the pivotal issue of independence as a main international criterion for a SAI – legally, financially, and in terms of the hiring and firing of personnel. Indeed, promoting NAO’s independence was appropriately included in the activities and objectives of the IDP. However, institutions are not islands unto themselves. They operate within a societal and regulatory context which is economic and political in nature. This context may constrain the institution’s performance or distort its outputs in various ways. Our findings suggest that neither the leadership of NAO nor the OAGN fully appreciated the nature of the political economic context within which their joint project operated.

This section begins with an analytical exploration into the influence of formal versus informal institutions in Malawi. Then, the key issue of NAO’s independence is analysed. Thereafter, the impact of staffing constraints in the Malawi civil service is assessed. Finally, the effects of the IDP as a variant of a Project Implementation Unit (PIU) are discussed.

#### **4.1 Formal versus informal institutions**

In order to understand not only how NAO’s external environment impinges on its functioning but also how NAO itself is working, a distinction between formality and informality is useful. Aid interventions that focus exclusively on formal institutions rarely succeed (see section on capacity-building vs. institution-building). It is important, therefore, to assess whether the OAGN had appreciated or understood the formal as well as the informal ‘rules of the game’, and, in turn, acted upon whatever understanding had been acquired.

The understanding of how policy and implementation interact in aid interventions is at a less mature stage than the general academic literature. Authors often focus on the misfit of standard policy designs to the local context and existing administrative capacity. Pritchett et al. (2010) have argued that aid agencies have a tendency to promote “isomorphic mimicry”, defined as an “adoption of the forms of other functional states and organisations which camouflages a persistent lack of function”, as well as “premature load bearing”, where “wishful thinking about the pace of progress and unrealistic expectations about the level and rate of improvement of capability lead to stresses and demands on systems that cause capability to weaken (if not collapse).” Andrews (2013) illustrates how ideas such as problem-driven approaches, cash-on-delivery and best fit rather than best practice have been promoted as ways to achieve better development results for a long time, but it remains stubbornly difficult to change the way that aid agencies work.

The concepts of ‘isomorphic mimicry’ and ‘premature load bearing’ are useful to discuss the following questions of relevance for the OAGN/NAO collaboration:

- How relevant were and are the competence and skills of the OAGN in the Malawian context?

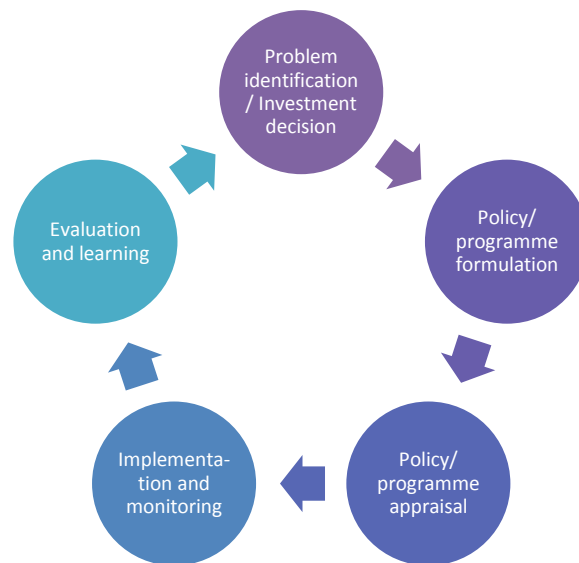
- What could the OAGN have done better to avoid preconceived solutions? How can the organisation improve in the future towards that end?
- Has the project had adequate built-in flexibility to draw lessons *en route* and adjust accordingly?

Regarding question one, the diagnosis of NAO points to a need for competence in both capacity- and institution-building. The technical competence of the OAGN was highly relevant, but there were no clear indications that the OAGN possessed general competence in the area of institution-building. In practice, much depended on the competence of the individual LTAs who were deployed to perform the task of institutional development. In the future, the OAGN would stand to benefit from developing its own support system for LTAs in the field of institution-building. Alternatively, such expertise could be sourced from elsewhere. The relevance of OAGN competence is further discussed in section 5.2.

There is no easy answer to the second question. The OAGN approach is not considered to have been overly rigid. The LTAs had flexible terms of reference and responded to challenges as they occurred. The key issue is the lack of a detailed *ex ante* problem analysis or diagnosis before embarking on implementation. Was capacity-building in performance auditing really the best value for money investment? It might have been, but we found no thorough justification for such a decision except general notions that it reflected the current international trend and views of domestic circles such as the PAC. That is all and well and sounds compelling, but several respondents took the view that the new emphasis on performance auditing to some extent had occurred at the expense of regularity auditing which remains a core activity of NAO. Indeed, continued high-quality regularity audits form an important basis for performance auditing.

The OAGN should not refrain from long-term planning and believing in solutions. However, these solutions need to be informed by thorough problem and needs assessments that are regularly reassessed. This demanding task should not be left to the LTAs. The LTAs perceptions need to be challenged by information and analysis by informed outsiders. In the future, the OAGN would benefit from following standard project cycle management guidelines, for example those proposed by the European Commission, where project appraisal and design are separate, important steps in the overall cycle. A constant process of appraisal, monitoring, evaluation and learning is central to an iterative approach over time. This requires proactive planning. Analytical studies need to be commissioned before implementation begins. This also has budgetary implications. Political economy analysis, institutional needs assessments and similar studies are expensive, but they are necessary all the same. Finally, the OAGN needs to align its own timelines and procedures to ensure that the findings from such studies inform project designs and terms of reference. If the OAGN wants to stay in the institution-building business, it is not enough to find good LTAs and send them to the South. That would be a poor theory of change.

*Figure 3: The project cycle*



Source: Adapted from European Commission (2004)

Finally, the answer to question three flows from the arguments above. We found that the OAGN was generally flexible enough in its approach. The main problem was the shallow analysis and understanding of the political-economic context, and how the constraints acknowledged by the LTAs could be addressed in the project design. This may relate to capacity. One and the same LTA cannot reasonably be expected to be active in implementation and at the same time be able to step aside, conduct a comprehensive strategic analysis, and personally redirect the programme. This suggests that the OAGN should acquire capability to support to its LTAs with that sort of expertise. However, as it were in the case of the IDP, the supportive expertise provided through short-term missions was predominantly confined to technical capacity-building, notably in ICT.

It has been argued that in African states there are 'two publics': a civic public and a primordial public (Ekeh 1975). In the former which is a modern or colonial construct individuals gain materially but give only grudgingly. The latter, on the other hand, is rooted in traditional society and its 'good' citizens are expected to contribute lavishly materially and ask for nothing in return, except compassion. The interaction of these two publics blurs the legal-rational Weberian distinction between the private and the public. Educated individuals – e.g. in the current political and economic elites – who operate in the civic public have not yet shed their allegiance to the primordial public. Hence, they are members of both and torn between them. The unwritten logic of the interaction is that it is legitimate to rob the civic public in order to strengthen the primordial public. As a result, the legal-rational Weberian ethos of benevolent institutionalisation, predictability and transparency tends to be undermined.

To some extent, the legal-rational precepts and ethos appear to govern Malawi's civil service, at least on the face of it. For instance, systems of financial management have been instituted and the oversight role of NAO is enshrined in the Constitution

and specified in the Public Audit Act. On the other hand, informal divergence from the established rules does occur. It is difficult, however, to identify the actors or stakeholders who deviate from the rules, especially for outsiders. The informal institutions or mindsets pervade all formal institutions in some measure. In some cases informal structures and networks predominate over formal ones. As such they take on great importance and should be taken into account when charting strategies and designing interventions for better governance.

On the face of it, the rules governing the civil service in Malawi seem straightforward and reasonable. These rules form the normative basis of governance institutions and are designed to regulate the relationship between the government and the citizenry. They are intended to ensure predictability and afford protection against abuse of power. These formal rules and regulations make up the legal-rational Weberian bureaucracy.

However, it is a source of concern that the formal rules are not always adhered to. Helmke and Levitsky (2006: 13-19) have constructed a fourfold typology of informal institutions and how they interact with their formal counterparts.

**Table 1: Typology of informal institutions**

<b>Outcomes/ Effectiveness</b>	<b>Effective Formal Institutions</b>	<b>Ineffective Formal Institutions</b>
<b>Convergent</b>	<i>Complementary</i>	<i>Substitutive</i>
<b>Divergent</b>	<i>Accommodating</i>	<i>Competing</i>

The typology is based on two dimensions. The first one is the degree of convergence between formal and informal institutional outcomes. The question is asked whether following the informal rules produces an outcome which is substantially similar or different from that resulting from strict adherence to the formal rules. When following the informal rules leads to a substantially different outcome, the formal and informal institutions may be said to diverge. Conversely, when the two outcomes are not substantially different, the formal and informal institutions may be said to converge.

The second dimension is that of effectiveness of the institutions in question. Effectiveness means the extent to which rules and procedures that exist on paper are enforced or complied with in practice. When formal rules are effective, the actors involved expect non-compliance to be negatively sanctioned or penalised by official authorities. Conversely, when formal rules are ineffective the actors involved believe the probability of enforcement and the cost of breach to be low.

*Complementary informal institutions* shape behaviour that neither violates the formal rules nor produces substantially different outcomes. Indeed, by effectively reinforcing

the formal rules complementary informal institutions enhance the efficiency of formal institutions.

*Accommodating informal institutions* entail incentives that create behaviour that alters somewhat the substantive outcome of formal rules but not directly violating them.

Neither of the informal institutions on the left hand side of the above table represents a threat to the enforcement of formal rules and regulations. In many ways they are reinforcing mechanisms. The problems arise in the cells on the right hand side of the table.

*Competing informal institutions* embody incentives and behaviour that are incompatible with the formal rules. Following the informal rules means violating the formal rules. The competing informal institutions trump their formal counterparts and generate outcomes that diverge markedly from the expected outcomes if the formal rules had been adhered to. Corruption is a case in point.

*Substitutive informal institutions* imply outcomes that are compatible with the formal rules and regulations. However, they typically exist in environments where formal rules and procedures do exist but are not routinely enforced. In other words, substitutive informal institutions achieve what formal institutions were designed to achieve but failed to achieve. Substitutive informal institutions tend to emerge and operate in situations where state structures are weak or ineffective.

Deviation from formal rules stems partly from practical obstacles and resource constraints, and partly from political expedience and lack of political will to uphold the rules. In effect, departures from established rules and regulations appear to be so frequent that they themselves are perceived to have displaced the formalities and acquired status as more or less accepted informal norms that are not reflected anywhere in written documents. They constitute a tacit understanding among actors about how matters are actually dealt with. In other words, this understanding can be characterised as the real political culture of the institution or the polity. The prevailing political or institutional culture thus constitutes an informal extension, however vague and elusive it might appear, of the rules of the political game beyond those formalised in the structures of government, the Constitution, other legislation and subsidiary regulations.

When the political or institutional culture deviates considerably from the established formal rules, it may pose a threat to accountable and democratic governance. Political or institutional cultures strongly favourable to democratic governance are particularly important in times of crisis. Countries or institutions with a less robust and supportive political culture might face a breakdown of accountability and democratic rule, and lead to impunity. It becomes especially worrisome if the dominant political culture or mindset is orientated towards evading the formal rules rather than respecting them. There is ample evidence that elements of such an insidious culture exist in Malawi. Anecdotal evidence is legion but how it plays out in specific

circumstances is hard to pinpoint, let alone predict. It should be noted that while it is comparatively easier to describe and analyse the influence of informal rules *ex post*, it is exceedingly more difficult to predict *ex ante* what the outcomes might be, let alone prescribe a course of action to ensure a particular result.

In the same vein, there appears to be excessive respect for authority in Malawi's political and institutional life, in the civil service and in society at large, which is not conducive to open, democratic debate. The hierarchical mode of thinking that seems to pervade Malawian society leaves scope for abuse which has become apparent in several aspects of the implementation of the IDP.

#### **4.2 NAO's lack of independence**

One of the principal objectives of the IDP was to enhance the operational independence of NAO. The international standards for Supreme Audit Institutions (SAIs) as stipulated by the International Organisation of Supreme Audit Institutions (INTOSAI) emphasise the importance of maintaining the independence of SAIs, inscribed in law. Indeed, independence is a founding principle laid down in the Lima Declaration of 1997. It is particularly important vis-à-vis the executive branch of government that comprise the full range of auditees. The National Audit Office (NAO) in Malawi does not enjoy the independence required to discharge of its duties efficiently and in an appropriate manner. This predicament has persisted since NAO's inception and continues to act as a severe constraint on its functionality as an accountability institution.

The office of the Auditor General was established by virtue of the constitutional provision laid down in section 184. Sub-section 3 says that "[a]ppointment to the office of Auditor General shall be made by the President and confirmed by the National Assembly by a majority of the members present and voting,..." The term of office is five years, renewable for a maximum of another five years. The Auditor General may be removed from office by the President but only for reasons of incompetence; financial improbity; incapacitation or old age beyond retirement. Significantly, sub-sections 7 and 8 stipulate that the Auditor General shall not be subject to the direction or control of any other person or authority and that no person or authority may inhibit the Auditor General in the conduct of his or her functions and duties. The latter formulations appear reassuring in terms of independence but in practice the independence is compromised in several ways. The persistent lack of independence manifests itself in three main domains: (a) reporting procedures and channels; (b) budgeting; (c) recruitment and dismissal of staff.

With regard to reporting procedures sub-section 2 of the constitutional provision states that "[t]he Auditor General shall submit reports at least once a year to the National Assembly, *through* the Minister responsible for Finance, not later than the first meeting of the National Assembly after the completion of the report (emphasis added)." The provision is, in fact, in breach of the INTOSAI founding principle of



independence. The Ministry of Finance is an auditee of NAO and reporting to this institution raises a serious question of conflict of interest. Besides, Parliament and NAO are both oversight institutions – the former in a broader political sense in the overall system of governance in terms of checks and balances, while the latter serves more narrowly as a technical entity. It is, therefore, inappropriate for NAO to report to Parliament *via* the Ministry of Finance. Not only is this manner of reporting cumbersome in practical terms and likely to cause delays in the deliberation of NAO's reports by the Public Accounts Committee (PAC), it also calls into question the true independence of NAO in the eyes of the public.

The constitutional provision is inconsistent, however, with section 15, sub-section 1 of the Public Audit Act No. 6 of 2003 which says that "... the Auditor General shall by 31st December of each year forward to the President and to the Speaker of the National Assembly, a report containing such information relating to the audits and reviews undertaken under this Act ...". In terms of this Act, the reports shall be submitted *simultaneously* both to the President and to the Speaker of the National Assembly. In other words, there should be no potential 'gatekeeper' *en route* to the PAC; reporting should be directly to Parliament albeit in parallel to the President. The two legislative provisions are evidently contradictory but since the Constitution is the supreme law of the land its provisions carry greater weight and take precedence. However, there is clearly a need to harmonise the two pieces of legislation by amending the Constitution to bring its provision into conformity with the long-standing international independence principle for SAIs.

#### **4.2.1 Budgetary constraints**

NAO does not control its own budget. Every year a draft budget is submitted to the Ministry of Finance which unsurprisingly makes cuts and imposes a ceiling before tabling an amended version in Parliament for approval. It is the role of any Ministry of Finance, of course, to be prudent and consider government expenditure within the overall estimated revenue at its disposal according to the priorities of the day. However, it can be argued convincingly that NAO is not a regular government department. Rather, it is a special accountability and oversight institution whose budget should be protected, although within reason in view of Malawi's meagre state revenues. Admittedly, the cash budget system makes this difficult but it would be doable to prepare a budget in conjunction with the PAC. In fact, the PAC and NAO take a common stand on this matter.

When drafting its budget NAO should liaise closely with the PAC and agree in a responsible fashion on a reasonable volume and distribution of votes before submission to the Ministry of Finance. The latter should, in turn, incorporate NAO's budget – without amendment – into the global government budget before tabling it in Parliament. That is the optimal option, preferred by both the PAC and NAO. However, no Ministry of Finance, in any country, would be inclined to relinquish its control over a budget previously controlled like that of any other. On the other hand, the argument in favour of NAO as a special accountability institution should carry



enough weight for the Ministry of Finance to give in. However, to date this argument has not carried the day. On occasion, therefore, NAO's auditees have covered the cost of auditing and consequently compromised NAO's independence in some measure.

#### **4.2.2 Staffing constraints**

Considered a regular government department, NAO does not have authority to hire and fire personnel. It is subjected to the rules and regulations of the Civil Service Commission (CSC). This subordination creates a host of problems for NAO. While NAO is at liberty to prepare job descriptions for recruits to new or already established posts and to submit them to the CSC as requests, it has little control over what happens thereafter. Interviewees across the board lamented that the recruitment process through the CSC is exceedingly slow, and that the calibre of new recruits when finally selected leaves a lot to be desired. A case in point is the staff of NAO's internal accounts department, which one consultant characterised in the following words (Chikoko 2011: 5-6):

Most of the members of staff in the accounts department are not technically competent and committed such that basic financial management systems are not put to use, impacting adversely on NAO's overall transparency and accountability index with key stakeholders.

Moreover, once in place recruits are sometimes capriciously withdrawn to be deployed elsewhere. As a result, the staff turnover remains high, especially in some categories of staff, leading to discontinuity and loss of institutional memory. In such a context, NAO is severely constrained in formulating a personnel management policy which addresses job satisfaction, promotion issues, etc. Ultimately, the staff morale suffers and contributes to reducing the effectiveness and efficiency of the institution.

The persistent lack of NAO's independence is a salient expression of how informality in actual decision-making – or rather how non-decision – has thwarted action towards meeting the independence objective. The 2010 institutional assessment of NAO made specific recommendation towards that end, seemingly with political sanction from top political circles, i.e. the OPC (see separate section on the institutional assessment). Yet, to date little action has been taken. There is no other plausible explanation for the subsequent acts of omission that other political forces, possibly in cahoots with forces internally in NAO, have actively or passively sabotaged the implementation of the recommendations of the institutional assessment report. Admittedly, some factors of bureaucratic inertia may have entered the equation. But it is far more likely that the Ministry of Finance is reluctant to relinquish its power over NAO's budget and NAO's reporting procedures. Similarly, with regard to the hiring and firing of personnel the Civil Service Commission is likely to have adopted the same attitude. Moreover, non-reformers within NAO are probably also 'spoilers' or plugs in the system who are thwarting reform.

It should be underscored, however, that the high staff turnover does not apply across the board. In the higher echelons of NAO staff turnover is remarkably low. A considerable number of senior staff have been in the employ of NAO since the late 1980s and early 1990s. One may wonder why. The salaries are by no means competitive compared to those offered by private sector companies which would be alternative employers. It is not unreasonable to suggest that the extensive use of allowances largely compensates for the low regular salary levels. This factor could also be a plausible explanation why staff members are so reluctant to reduce expenditure on allowances.

Job satisfaction may be a staff retention factor although many interviewees have asserted that frustration is pervasive and morale is low owing to difficult working conditions. Unclear promotion criteria and poor career prospects within NAO are additional factors not conducive to job satisfaction. Several respondents have emphasised the importance of job security in the public sector as a means of attracting and retaining staff, which no doubt is a valid point. Some respondents outside NAO claimed that NAO staff are second rate and that, as a result, employment in the private sector is not an option for them. However, others refute that claim as totally unfounded.

Although impossible within the time constraints of this evaluation to ascertain more precisely what determines staff retention at the higher echelons of NAO, it seems reasonable to suggest that all the above factors are at play. To say more precisely which ones are more important would require a careful, in-depth investigation.

Without control of its own budget and authority to hire and fire, NAO suffers from a severe capacity gap in terms of staff of all categories and the attendant skills. At the time of the institutional assessment in May-June 2010 NAO had a total establishment of 391 posts at various grades, of which 250 were technical. Of the technical posts, 107 were vacant, translating into a vacancy rate of 43 per cent (Republic of Malawi 2010: 6). While the vacancy rate in the H-E grades may have fluctuated somewhat it has hovered around 40 per cent for a long time. Although the vacancy rates are high in many other government departments as well, NAO's rate is astoundingly high and no doubt hampers NAO's ability to do its job.

#### **4.3 Effects of the Project Implementation Unit model**

The management of the IDP within the confines of NAO also appears to have been afflicted by the formal/informal distinction, to a large extent made possible, or indeed facilitated, by blurred formal arrangements.

The phrasing and terminology used in various documents are confusing to the reader. On the one hand, Article 2 of the MoU dated 30 November 2007 stipulates that "[t]he OAGN and the NAO undertake jointly: ... [t]o implement the cooperation ...". On the other hand, the IDP document (2009–2013) says that the "project will be implemented by the National Audit Office of Malawi (project owner) ...". This

discrepancy may seem insignificant at first sight and would probably present no problem as long as cooperation is proceeding smoothly. However, when disputes arise – whether significant or seemingly petty – lack of clarity as to the ownership of the project might cause problems.

In June 2009 an IDP Project Charter was drafted and discussed (NAO 2009). Its purpose was to establish the structure of the project and to delineate tasks and responsibilities. Although never formally approved, the Project Charter appears nevertheless to have informed – although it remains unclear to what extent – the thinking of both NAO and the OAGN with respect to project management. As from phase II the IDP had, in effect, constituted a separate unit in NAO, with the project team as its secretariat. In other words, the IDP had been set up as a project implementation unit (PIU) *internally* in NAO. A PIU structure is generally considered conducive to efficient implementation provided responsibilities are clearly delineated and authority delegated to execute the tasks at hand (OECD/DAC 2011). However, separation from the regular administrative structures might jeopardise the long-term sustainability of the project. Hence, careful coordination with NAO's structures would then be critical.

The steering structure of the IDP as per the Project Charter was envisaged to comprise the Project Steering Committee (PSC) – with the Auditor General at the helm – as the highest decision-making body. All alterations of operational plans with strategic import would require discussion and approval by the PSC. Similarly, budgetary changes would also need approval by the PSC. Day-to-day operational activities, on the other hand, would be supervised by the Project Manager (PM), serving as secretary to the PSC. The PM would have a project team at his disposal: the project accountant; a project assistant; and the resident Long-Term Advisor, all of whom working full time with IDP-related activities. Furthermore, a Technical Committee would be established in an advisory capacity, although with some operational authority to approve minor budgetary reallocations between PSC meetings. Moreover, a number of activity managers – supervised by the PM – would be assigned tasks to handle specific project activities.

The bulk of the IDP budget was provided by the Royal Norwegian Embassy (RNE). The funds were not channelled through the OAGN but directly to NAO which maintained a dedicated foreign exchange holding account in the Reserve Bank of Malawi. From time to time, funds from the holding account would be transferred to an operating account in local currency with a commercial bank. This is again an indication of a PIU structure. The crux of the matter is who held authority to incur expenditure (AIE) from the IDP project budget.

As a measure of alignment with government structures, however, NAO was expected to report regularly to the Ministry of Finance on the use of the funds. The OAGN did not have access to the holding account. Over and above the funds provided through the RNE, the OAGN provided resources in kind such as the salaries and other

expenses related to the Long-Term and Short-Term Advisors alike. This contribution was reported to the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) as Official Development Assistance (ODA). The OAGN also supplied a large number of second-hand laptops in good working condition after their having been reconstituted.

Failure to approve the Project Charter and by implication the resulting 'decision' to hobble along all the same may be construed – with the benefit of hindsight – as a somewhat gullible stance by the OAGN.

Finally, the decision to implement the IDP as a form of PIU indicates that integration into the normal operational mode of NAO suffered as a result.

#### **4.4 The 2010 institutional assessment of NAO**

Following the adoption of NAO's Strategic Plan (2009–2013) a comprehensive institutional assessment of NAO was made in 2010 by the Department of Public Service Management (DPSM). It highlighted a range of strategic and operational challenges facing NAO and a number of recommendations were made towards meeting those challenges (Republic of Malawi 2010). The DPSM report was approved by the Office of the President and Cabinet (OPC) and the stage was set for a series of reforms.

The institutional assessment pinpointed a number of NAO's shortcomings and challenges that hampered its functionality. We have discussed some of them above in the section on NAO's lack of independence, i.e. the reporting procedures, and the budgetary and personnel constraints. In the subsequent paragraphs we add some institutional factors that also adversely affect NAO's functionality.

With regard to audit coverage, NAO has predominantly focused on regularity audits over the years. Only recently has performance auditing come more prominently into the picture. NAO's external environment – the PAC, the donors, AFROSAI-E and the general public – has pushed for increasing emphasis on performance auditing, consonant with international trends. The IDP document reflects this issue and considerable efforts were put into developing manuals and skills for performance auditing. However, some informants raised the issue whether the right balance had been struck between conventional regularity auditing and performance auditing. Some informants said that the pendulum had swung too far in the direction of performance audits, exacerbating the capacity constraints of regularity audits. The point was made that regularity audits remain a core responsibility of NAO and that the current regularity audit cover needs to be broadened to comprise tax revenue, risk-based audits, debts and aid, etc. Performance auditing is an *additional* function that to some extent presupposes regularity audits of the institutions selected for closer scrutiny in terms of value for money.

It is no secret, albeit not substantiated by way of a survey, that the public image of NAO leaves a lot to be desired. A perception survey was initiated at some stage but never completed. From time to time, adverse mass media coverage has contributed to tainting the image of NAO. Recent newspaper articles have drawn attention to NAO's faulty internal financial management processes and irregularities, as well as misappropriation of taxpayers' money for allowances (Chingwede 2013). Similar coverage has previously painted a negative image of NAO, raising the fundamental question about NAO's credibility if it cannot keep its own house in order (Nyasa Times 2012).

In view of its bad public image largely owing to flawed internal management, it is paradoxical that NAO has itself been seen as a fault finder rather than a vehicle for improving government accountability and transparency. The oversight function of NAO is in the interest of the general public and the taxpayers and a contribution to democratic governance. Still, audit reports are not adequately publicised and their use not explained to the general public. Audit reports are heuristic devices intended to improve the performance of the auditees, not to put them on the spot for failing to live up to standards. The recent emphasis on performance auditing underscores the learning purpose of audits. This needs to be conveyed to the general public more actively than to date.

Towards improving the profile and image of NAO and raising the awareness of the institution by the general public a Public Relations Officer (PRO) was recruited. This was a follow-up to a recommendation by the institutional assessment report. The PRO has taken a four-pronged approach to external stakeholders: (a) the PAC of Parliament has been targeted with sensitisation sessions in 2011 and 2012, as well as meetings on performance audit reports; (b) an *ad hoc* mass media forum has been set up to improve liaison with the public through the media. However, this activity has been dependent on IDP funding which dried up in mid-2012; (c) a mailing list has been compiled with media, donors and civil society organisations as the principal recipients; (d) a website – [www.nao.mw](http://www.nao.mw) – has been established to provide general information and for uploading of audit reports. However, after repeated failed attempts to access the website, we must conclude that it is dysfunctional at present. An open day at NAO has also been organised.

Engagement with civil society organisations (CSOs) was long considered anathema to NAO because they were perceived as 'enemies'. On several occasions CSOs had criticised NAO for not performing up to expectations. However, as watchdogs CSOs are akin to NAO by keeping a vigilant eye on the use of the taxpayers' money. Presumably, there would thus be a basis for joining forces towards the same goal. With the appointment of a PRO, the attitude towards civil society changed. For example, the Malawi Economic Justice Network (MEJN) – a major CSO active in the public debate – has reviewed NAO annual and PA reports and publicised these reviews in dissemination events. This is a form of engagement with civil society that NAO wishes to continue.

## 5. Achievements

In assessing the achievements of the IDP, we have applied the standard evaluation criteria used by the OECD/DAC: (a) relevance; (b) effectiveness; (c) efficiency; (d) impact; and (e) sustainability. We will address them one by one in the subsequent sections. The ToR emphasise the relevance and effectiveness criteria, which means, by implication, that the other three OECD/DAC criteria (efficiency, impact and sustainability) will be accorded less attention. Although these three criteria are largely outside the scope of our assignment, we will nevertheless endeavour to address them up to a point, as a strict demarcation of the five criteria can sometimes be counterproductive. For example, it quickly became clear during the course of the evaluation that in order to deliver a holistic judgement on the effectiveness questions, sustainability issues had to be taken into account. The OAGN support had been very effective in building-capacity for regularity and performance auditing, but once the engagement was suspended the risk of relapse became imminent. The gains could easily be reversed.

### 5.1 Capacity-building versus institution-building

As a precursor to the subsequent sections on each of the performance criteria we insert a discussion on capacity-building versus institution-building. The evaluation of OAGN support to NAO must be seen in the light of the understanding of this distinction and what was, in effect, given priority. This relates directly to the relevance criterion, but also affects the criteria of effectiveness, sustainability and impact. We are of the view that the two collaborating sister institutions – both being technical agencies – tended to gravitate narrowly towards capacity-building in their activities rather than to engage systematically in institution-building.

The fuzzy institutional arrangements governing the management of the IDP bear decisively on the very core goal of the IDP: institution-building. It is no wonder, therefore, that when the point of departure in this respect was unclear, to say the least, the outcome could not be expected to be much better.

The Institutional Development Project (IDP) had institution-building at its core. Yet, most documents emphasised capacity-building as the principal activity. Indeed, a range of activities towards capacity enhancement was specified, with activity managers assigned to implement them. It seems that the two terms capacity-building and institution-building were used interchangeably. While it is true that the ToR for the first LTA made repeated reference to the 'institutional development of NAO', its bulleted specification under the sub-heading 3.3 'institutional capacity building' suggests an understanding of the term to centre on capacity expansion and skill formation in a rather technical sense:

- General capacity building (e.g. sensitisation to models and techniques, standards and guidelines), within the three areas of professional audit capacity, organisational capacity, and capacity to deal with the external environment;

- Promote development of gender and welfare activities, in accordance with the OAGN Manual for Development Cooperation;
- Participate in selected training events with colleagues from OAGN undertaking short-term missions;
- Assistance in providing appropriate reference material for training activities.

Capacity-building is, of course, a necessary precondition in an institution-building project. Institutions do consist of individual staff whose capacity and skills to perform tasks are crucial. But capacity expansion is far from an adequate precondition. Institution-building goes beyond capacity-building.

An institution may be defined as a set or a pattern of relatively stable social relations. Institutions define the “rules of the game of a society” (North 1990 and 1992). The patterns of social pattern interaction are iterative over time and governed by formalised, written rules and agreements as well as informal, tacit understandings about acceptable behaviour. In other words, informal and formal rules co-exist. When the formal and informal rules reinforce each other, they contribute to consolidating and solidifying the institution. Conversely, as shown in the section above, if formality and informality pull in different directions in terms of the normative institutional foundation, scope is created for instability and unpredictability to arise (see separate section on formality/informality).

Capacity-building can be defined as a process whereby individual members of or groups within an institution enhance their skills in a particular field of activity to buttress their institution with a view to achieving its goals. In the case at hand, capacity-building meant equipping NAO staff with the requisite skills to perform high-quality audits, and providing concomitant supportive tools and working environment. To a large extent capacity enhancement is therefore centred on human skills development, and to some degree how individuals work in a collective fashion towards a common goal. Commendably, the OAGN has assisted greatly in that effort in conjunction with NAO.

Equipped with skills and technical tools such as manuals and laptops, the resultant capabilities are put to use in order to produce audit reports for submission to Parliament. The work processes towards such deliverables are governed by formal procedures and established routines within existing authority structures. Deviation from those procedures might lead to sub-standard or biased outputs.

Institution-building – as distinct from capacity-building – entails incorporating and instituting proper systems and procedures to ensure conformity and predictability of behaviour on the part of the increasingly skilled staff, thus creating an enabling environment for them.

The resources at the disposal of an institution fall in four categories:



- (i) *Human resources.* Most of the collaborative activities under the IDP have centred on human resources, i.e. enhancing staff skills and organisational diversity such as ability to conduct increasingly complex audits – both regularity and performance audits. The completion and rolling out of the Regularity Audit Manual (RAM) and the development of a performance audit manual, including procedures for quality assurance are examples of major achievements in human resources development.
- (ii) *Managerial resources.* To a limited extent, managerial resources have also been enhanced by means of the IDP, i.e. planning, participation by staff, monitoring and evaluation. However, in the face of entrenched management styles the systems internal to the IDP as a PIU appear not to have functioned optimally. Many respondents pointed to leadership deficiencies as a main reason for shortcomings and outright irregularities, as well as the inability to push the reform process ahead.
- (iii) *Financial resources.* The IDP brought in considerable financial resources in addition to those from government sources. In the short term this eased the budgetary constraints and provided a temporary respite. The situation after the suspension of aid flows by the RNE starkly illustrated NAO's financial vulnerability and the sustainability challenge.
- (iv) *External resources.* The IDP made some efforts, however erratically, to improve the standing of NAO in society. It is no exaggeration to say that citizens at the grassroots have less than rudimentary knowledge and appreciation of the role of a SAI. Indeed, ordinary citizens are hardly aware of NAO's existence. The hiring of a Public Relations Officer (PRO) was therefore a significant move, even though it takes time before it will bear fruit. Still, by engaging with the mass media and civil society the prospect are good for raising the public awareness of NAO and improving its somewhat tainted reputation. External resources are also affected by NAO's relations with other government departments and agencies. But the critical matter of independence is treated in a separate section.

Apart from skills, tools, procedures and various types of resources, the performance of staff may be affected by an institutional culture as reflected in attitudes, mindsets and incentives (cf. section above on formality vs. informality). It is arguably indicative of the institutional culture of NAO that the pursuit of allowances to supplement the basic salary takes on great significance. The '*per diem* hunting' in Malawi and elsewhere has been given attention in several publications (see e.g. Søreide et al. 2012). Although the *per diem* culture is highly destructive at the macro level, the search for allowances is understandable at the individual level. Although not all disbursement of allowances is illegal, strictly speaking, it tends to distort action in favour of those activities which yields allowances over those which do not. Within a tight budget frame, money for allowances is thereby diverted away from activities accorded higher priority. For example, one respondent claimed that performance auditors who tend to be stationary at headquarters grumbled about not getting allowances associated with field sojourns and demanded some form of



compensation. This has to do with individual incentives against a background of low regular salaries. Such incentive structures have to be taken into account when seeking to build an institution, and changed if their effects are adverse. Ideally, the theory of change of the IDP should have incorporated how incentive structures shape behaviour in defiance of formal rules. In NAO, it appears that an institutional culture had become entrenched to the effect that extensive use of dubious allowances was commonplace. This is clearly reflected in NAO's defensive responses to the criticisms contained in the Deloitte (2011) report on financial irregularities.

Relating to the issue of capacity-building versus institution-building is the weighting of training for technical, specialist staff versus training of managers. It cannot be taken for granted that it is more relevant to train technical staff. A critical element in the workings of an institution is leadership. NAO has had the misfortune that the top post was previously vacant for many years. When Reckford Kampanje took office as Auditor General in 2008 the scene was set for a new start, with the IDP as a booster at that. However, respondents inside and outside NAO alike have provided mixed assessments of Kampanje's role and management style. Many were positive but others were negative; the balance tended to move towards the negative in the later years of his tenure. One respondent characterised him as 'an enigma' whose posture was difficult to fathom. The critics drew attention to Kampanje's weakness as Auditor General rather than his ill will or inability as a leader. His weakness manifested itself first and foremost vis-à-vis the external environment but also internally within NAO. In mitigation, however, it should be noted that what might be perceived as weakness on his part as a leader could just as well be a reflection of the difficult environment in which he had to operate.

The leadership function of an institution is often associated with the top post; leading by example is a well-known principle. However, NAO's management layer also comprised leaders down the hierarchy who were co-responsible for shortcomings of leadership, i.e. the DAG and the AAGs and further down the middle ranks. For the evaluation team it has been very difficult to disentangle the leadership knot. The signals from respondents have been mixed and hard to interpret. Nevertheless, across the board, there was a widespread common perception that the leadership segment – referred to as 'management' in common parlance – comprised both reformers and non-reformers (alternatively drivers and spoilers of reform). The former, evidently professionally competent, were trying hard to effect changes but became frustrated and disillusioned. The latter acted as saboteurs, more or less actively, and effectively managed to stall the reform process. A middle category included those who passively moved along with the tide, taking neither a reformist nor a non-reformist position.

We acknowledge the efforts made by the two LTAs and senior staff of the OAGN, including to Auditor General himself, to address the leadership challenge. These efforts ranged from regular dialogue with the Malawian AG over leadership issues; pressure through donors; engagement of two domestic management consultants;

sensitisation of parliamentarians; pressure to implement the recommendations of the institutional review; to high-level meetings involving the Norwegian AG and senior Malawian officials such as the Principal Secretary in the OPC, the leader of PAC, and officials of the Ministry of Finance. Notwithstanding these strenuous efforts over several years, which in effect came to naught, the leadership problem persisted and effectively thwarted progress towards the overriding goals of the IDP, especially regarding the independence of NAO. To the evaluation team, it seemed as if the OAGN 'hit the wall' on the leadership issue. Its solution probably entailed the reshuffling or removal of senior NAO staff which was beyond the authority of the OAGN as an external partner. As a result, the OAGN simply gave up on the leadership challenge and sought to salvage the situation by concentrating on technical capacity-building.

The fact that the leadership issue was beyond the power of the OAGN to solve had a lot to do with the application of the two principles of *ownership* and *alignment* as contained in the Paris Declaration on Aid Effectiveness. In a relationship between two partners – a donor and a recipient – the former principle means that the recipient should own the intervention and be in charge of its implementation. The underlying assumption is that ownership would enhance the commitment to the intervention, facilitate goal achievement and long-term sustainability. The IDP document stipulated that NAO should own the project, although different terminology was used in various documents, thus creating confusion and ambiguity. It follows from the ownership principle that the donor – i.e. the OAGN as a conduit for RNE funds and its own in-kind resources – would take a back-seat position as a technical backstopping agency.

The latter Paris principle of alignment reinforces the strength of the recipient, meaning that the donor should adapt to the policies and governance structures of the recipient. Hence, the donor would be severely constrained when trying to change basic management and leadership structures in an institution. The trade-off between the objectives and policies of the OAGN and those of NAO and its broader political environment was exceedingly difficult to handle. The OAGN made commendable attempts but failed. As a result, the critical leadership issue was left unresolved and in great measure eventually led to the suspension of the collaborative venture. Concomitantly, as the OAGN/NAO relationship evolved, the activities tended to centre on capacity development not directly affected by the leadership issue.

It is our distinct impression from interviews with NAO staff across the board that as a partner the OAGN's role was seen as two-fold: (a) technical backstopping and training; and (b) source of funding. There was great appreciation for those functions. The predominant perception by NAO staff of the OAGN – although varying to some degree – was not one of institution-builder in the sense of transforming the structure and culture of the institution. Indeed, examples were given of perceived undue interference to which strong exception was taken. In the aftermath of the suspension of the relationship all respondents lamented that funding had dried and that training

activities had ceased. No interviewee mentioned the broader institution-building aspects in that connection. One can conclude that there was clearly a discrepancy of perception by the OAGN and NAO about their respective roles in the IDP.

The above arguments indicate that the weight placed on capacity-building versus institution-building activities by the OAGN is highly relevant to this evaluation. The ToC analysis described how a shift in this weighting occurred when the project moved from the design to the implementation stage. The failure to resolve the leadership problem further accentuated that proclivity. This section has elaborated upon the prominence the OAGN placed on capacity-building and how it manifested itself. The sections below will discuss how it mattered specifically for the relevance, effectiveness, efficiency, impact and sustainability of the project.

**5.2 Relevance**

In part 1, sub-section 1, the ToR state that the evaluation should “focus on the *effectiveness* and *relevance* of OAGN’s contribution to strengthening the NAO in the period of 2007-2012 (emphasis added).” Following the OECD/DAC definition, relevance refers to the extent to which the objectives of a development intervention are consistent with the beneficiaries’ requirements, country needs, global priorities and partners’ and donors’ policies.

The table below shows the questions and indicators for the assessment of the relevance criterion presented in the inception report in the left-hand column, and the conclusions drawn by the evaluators in the right-hand column. The bases of the conclusions are explained further below.

**Table 2: Evaluators’ assessment of relevance**

Indicator	Conclusion
<p>To what extent are the objectives of the project still valid? Are the stated objectives aligned with the priorities of NAO and the Government of Malawi (GoM)?</p> <ul style="list-style-type: none"> <li>Indicator: Identified priorities by NAO or the Malawi government reflected in adapted or changed priorities for the project.</li> </ul>	<p>The objectives of the project were valid and in alignment with NAO priorities.</p>
<p>Are the activities and outputs of the project consistent with the overall project goal and the attainment of its objectives?</p> <ul style="list-style-type: none"> <li>Indicators: The theory of change shows an internal logic. Respondents perceive that activities and outputs are contributing towards goal attainment.</li> </ul>	<p>Activities were consistent with the goals set out in the project document, but there were missing/under prioritised activities which upset the logic of the project’s theory of change.</p>

The overall assessment is therefore that OAGN support was highly relevant. This is the strict interpretation of the OECD criterion. However, we would add that there was scope for increasing the relevance by choosing the most appropriate activities for

long-term the effectiveness and sustainability of NAO. For example, the relevance of the excessive emphasis on performance auditing is questionable.

The relevance criterion can thus be seen to have two dimensions. One is the overall relevance of supporting NAO as a SAI in Malawi's system of accountability and integrity and whether this is aligned with the government's objectives. The general relevance of strengthening the supreme audit institution of a country is not in question at all. This institution's relevance to the entire system of governance, accountability and integrity is palpable.

The other dimension is whether the specific objectives and activities under the IDP in a somewhat more narrow sense have been relevant to enhancing NAO's capabilities as a SAI. The IDP document was based on NAO's Strategic Plan 2009-2013 and designed jointly with NAO. Certain elements of the Strategic Plan were selected and agreed upon for particular attention and incorporated as objectives and activities in the IDP. The OAGN was considered as having a comparative advantage in handling these and in assisting NAO in that regard. The Strategic Plan, however, was broader in scope than the IDP. But there was no discrepancy between the IDP and the Strategic Plan. They were complementary documents, clearly linked and coordinated; one might say that the IDP was a selective operationalisation of the Strategic Plan with accompanying funds to implement it. At this general level the IDP was highly relevant to the thrust of NAO.

Having said that, we question whether the IDP design was entirely appropriate with a view to reaching the institution-building goal. Was the relative weight of activities in the IDP activity plan properly balanced? For example, was the balance between training and efforts in the legislative field appropriate? In retrospect and in view of the persistent lack of independence by NAO to date, we argue that its legal framework and operational independence was not accorded high enough priority. On the other hand, recognising the political nature of the independence issue and the operation of informal power relations, it must be acknowledged that the IDP hit a wall that the project was unable to penetrate.

Furthermore, the ToR state in part 2, sub-section 2, that "[t]he main purpose of the evaluation is to assess the extent to which the OAGN's contribution has been relevant and useful to enhancing *capacity* in NAO during the cooperation period (emphasis added)." The relevance criterion was thus reiterated. However, rather than effectiveness in general – i.e. the achievement of results – the quoted statement refers purely to capacity-building as an objective rather than overall institutional functionality. It suggests that building *capacity* in a somewhat narrow sense was the principal objective of IDP. This is unsurprising given the nature of both the OAGN and NAO being technical agencies. The comparative advantage of the OAGN is precisely to enhance the technical capacity of NAO in auditing skills. As a comparative novice in the field of development cooperation, the OAGN was – and may still be –

unfamiliar with the deeper meaning of institution-building. This has been the main comparative disadvantage of the OAGN.

Following the INTOSAI guidelines, however, capacity goes beyond pure auditing capacity. It includes internal organisational capacity as well as capacity (and ability) to deal with the external environment (ToR, p. 10). For our evaluation purposes, therefore, we prefer the overall concept of capability. Capability is defined as the ability to undertake and promote collective actions efficiently. The concept encompasses the administrative and technical capacity of staff, but is broader than capacity by including the institutional mechanisms that give civil servants (and politicians) the ability to convert capacity into coherent action. An institution's capability is thus a combined function of its capacity and ability. Whereas technical capacity can be built within an institution such as NAO, its ability to actually use the enhanced capacity is largely conditioned by its external environment, in particular cooperative mechanisms within the national system of accountability and integrity, as well as the broader political economy of the country. The same reasoning applies to NAO's internal institutional culture, commitment and work ethic. The activities performed were relevant for strengthening the technical audit capacity of NAO, but not to strengthen its capability to reduce waste and corruption and strengthen the efficiency of government operations.

In short, the IDP project was relevant in that it was aligned with government priorities and needs. However, more relevant activities could have been prioritised, particularly during the implementation phase.

### **5.3 Effectiveness**

The ToR attach more importance to effectiveness than to relevance. Effectiveness means the extent to which the development intervention's stated objectives have actually been achieved, or are expected to be achieved within the time span of the intervention, taking into account their relative importance. It is measured in terms of the parameters stipulated in the project document. However, while effectiveness may be judged in such concrete terms, it must be qualified within the broader institutional context. The fact that an auditing manual has been produced says precious little about its actual use, let alone the quality of the reports it may have produced when used. We have elicited information from respondents about the contribution of tangible project outputs to the overall functionality of NAO. At the end of the day, the latter is what really counts.

Overall, the evaluation team found that OAGN support has not been effective in reaching its stated goals. Capacity-building efforts to strengthen auditing competence were effective, but they were not in themselves sufficient to produce an effective institution.

A baseline study was purportedly undertaken at the beginning of the IDP which has served as the point of departure for the evaluation. It is against this baseline that

achievements have been gauged. However, the so-called baseline study was poorly done and disappointing for a number of reasons. The poor quality of the baseline made it very difficult for the evaluation team to consider progress measured in terms of indicators at an acceptable level of precision. To call it a baseline study is a gross exaggeration. First, it has significant gaps, i.e. too many blank cells. Second, the indicators are of a widely differing order, ranging from the vacancy rate to number of clients and number of HIV-related information activities. Given the high total number of listed indicators (142) and their diversity, we have selectively focused our attention on the Institutional Key Performance Indicators (IKPIs), of which 13 were included in the baseline (the numbers in parentheses refer to the numbered indicator in the baseline).

The table below lists the indicators, stated goals and actual performance of NAO. This is what is needed to evaluate effectiveness as defined by the OECD/DAC. As shown, indicators were developed, but milestones and targets were left undefined, and NAO was able to produce data on its own indicators. The data inserted in the table below had to be assembled by the evaluation team on the basis of its own observations and fragmented data.

**Table 3: Evaluators’ assessment of effectiveness**

Indicator	Milestones/Targets	Actual performance
Completed audits by full use of at least 25 WPs in the Regularity Audit Manual (2)	Not defined	No data
Staff using Computerised Audit Management Tool (4)	Not defined	None
Performance audit reports tabled in Parliament (14)	Not defined <sup>1</sup>	Two reports submitted but not yet deliberated upon by the PAC
Audit coverage 1: percentage of National Budget audited (definition) (36)	Not defined	No data
Audit coverage 2: number of governmental entities audited (37)	Not defined	No data
Audit coverage 3: percentage of governmental entities audited (38)	Not defined	No data
Quality control reports produced (41)	Irrelevant indicator	Irrelevant indicator
Percentage of annual planned audits completed (45)	Not defined	No data
Number of planned audits undertaken ( <i>ad hoc</i> audits) (47)	Not defined	No data
Vacancy rate (53)	Not defined	High
Number of auditors being women (67)	Not defined	No data
Annual total budget allocation from GoM (91)	Not defined	2010: 278,740,000 (62% of overall funding) 2011: 356,123,834 (67% of overall funding)
Total number of laptops and desktops in NAO (110)	Not defined	No data

<sup>1</sup> The LTA, Jostein Tellnes, had personal targets defined in his ToR, i.e. submission of 4 + 2 performance audit reports. This goal was not reached.

The lack of clear milestones and targets for the organisation’s IKPIs is very problematic, even more problematic is the lack of data. The evaluation team experienced significant problems in getting basic performance data from NAO. Despite promises and repeated reminders detailed monitoring information regarding the IKPIs was not made available to the evaluation team. The delays and inability to produce automated data reports expeditiously might indicate a potentially weak or erroneous data foundation resulting from a poor monitoring system, or it may mean that no monitoring had been done at all. In any case, the problems experienced in getting basic performance data are indicative in themselves of institutional performance, and holds lessons for the OAGN in the future to emphasise the monitoring and evaluation components of a potential new project (see recommendations). The low evaluability of the project have inserted grave caveats about any conclusions on effectiveness drawn by this evaluation. We have sought to reconstruct project-level data, identified relevant secondary data sources, and used our own interview material as best possible. However, ultimately NAO was not an institution ready to be evaluated. Low evaluability was a serious shortcoming of the IDP project.

**Box 1: Evaluability**

Evaluability refers to how well an intervention (policy, reform, programme, or project) can be evaluated. Establishment of baselines, comparison groups, systematic data collection, and a clear project logic, for example via a ToC, can all help to improve evaluability.

Besides strengthening the evaluations of reforms, such groundwork also generally enhances the quality of policies and projects by testing their internal logic and presenting data that allow for mid-course adjustments and project redesign.

Source: Johnsen (2013).

The IDP had its own Operational Plan (November 2008 version) with different indicators, but no targets or data. The ToR for the last LTA, Jostein Tellnes, had indicators against which he reported in his internal report to NAO. The table below presents an overview of the self-reported progress by the LTA himself.

**Table 4: Assessment of effectiveness by last LTA**

Objective (indicator)	LTA’s assessment
1. Strengthen performance audit and support the submission of PA reports to Parliament (4 + 2 PA reports submitted)	Objective not reached
1.1 New organisational structure for PA function in place	Partially achieved
1.2 Management and line function on PA executing their profession as performance auditors in reviewing and managerial processes	Partially achieved
1.3 All PA staff are familiar with the PA procedures as described by the new manual	Achieved
1.4 All PA staff are experienced with the major methods of performance auditing	Partially achieved
1.5 PA staff are experienced in project management	Achieved
1.6 PA staff are experienced in the use of Excel, Word and SPSS	Achieved
2. Support to the execution of institutional reform	No data
3. Coordination with Parliament, donors, OAGN, AFROSAI-E and mass media	No overall indicator or assessment

3.1 Successful tabling of NAO's first PA report including national mass media coverage	Achieved
3.1 PAC, Principal Secretaries and mass media are sensitised on PA	Partially achieved
3.2 NAO is actively participating in PA activities in the region	Partially achieved
4. Successful implementation of the IDP	Not achieved

Interviews with other interviewees corroborated many of Tellnes' points above. The notable achievements of NAO reported by interviewees were as follows:

- Production of regularity audit manual and draft performance audit manual;
- Training of NAO staff in the use of audit manuals;
- Training of NAO staff in the use of ICT;
- Reduction of the backlog of audit reports;
- Production of four performance audit reports.

It is on the above basis that we refer to the OAGN as being effective in strengthening the technical audit capacity of NAO.

### 5.3.1 Secondary data sources on NAO's performance

Our primary data sources have been cross-checked with secondary data sources. We identified three main relevant sources: (a) the AFROSAI-E scores, based on a self-assessment methodology; (b) the Global Integrity Scorecard, based on expert assessments; and (c) the Public expenditure financial accountability (PEFA) scores, also based on expert assessments.

#### (a) AFROSAI-E

AFROSAI-E has produced a series of transversal reports which rate SAIs in the region in terms of a set of criteria (domains). The table below depicts developments in four comparative countries over the years 2009–2011.

*Table 5: Ratings of selected SAIs by domain (criterion)*

Domain (criterion)	Malawi			Tanzania			Uganda			Zambia		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Independence and legal framework	2.50	2.53	2.53	3.89	3.47	3.63	3.83	3.68	3.26	3.11	3.11	2.89
Organisation and management	2.73	2.13	2.13	3.82	3.4	3.33	2.82	2.67	2.80	3.27	3.27	3.13
Human resources	2.00	1.95	2.57	3.92	3.29	3.29	2.62	2.86	2.76	3.85	3.24	2.95
Audit standards and methodology	2.12	1.91	2.57	4.00	3.61	3.61	3.06	3.61	3.61	1.88	3.04	2.87
Communication and stakeholder management	2.14	2.19	2.27	3.86	3.69	3.19	3.14	1.5	2.46	4.00	3.75	3.04
Average	2.29	2.14	2.41	3.89	3.49	3.41	3.09	2.86	2.98	3.22	3.28	2.98

Source: AFROSAI-E Transversal Reports 2009, 2010 and 2011.

AFROSAI-E divides the scoring into five maturity levels. Level 3 is the established level characterising a SAI that has all its institutional elements in place and works



according to international standards and best practices, even though there is room for improvement. Level 2 is the developing level representing SAIs still missing some of its institutional elements. Level 1 is the founding level describing SAIs that have been founded, but still need to build its organisation in accordance with international standards. Levels 4 and 5 are the managed and optimised levels, which are difficult to reach. The most developed SAIs among INTOSAI's members are found at levels 3 and 4 (AFROSAI-E 2011).

These figures appear to suggest that performance fluctuates from one year to another, not only the averages but also for each of the domains. Yet, it is unlikely that this be the case. For example it is not plausible that the independence of the SAIs of Tanzania and Uganda has decreased from 2009 to 2010. Therefore, the figures should be read with great caution for at least two reasons. First, they are based on self-assessments by the SAIs themselves. As a result, there is an element of subjectivity involved. Second, the methodology appears to have changed somewhat from one year to another, leading to inconsistencies.

As far as Malawi is concerned, it nevertheless emerges quite clearly that on average NAO's score is consistently lower than its sister institutions over the period. In terms of the objectives of the IDP – especially the overriding goal of making NAO capable of delivering high quality and timely audit services – it must thus be acknowledged that NAO started from a low level. Hence, in retrospect – and indeed at the time the IDP project document was drafted – reaching that goal was unrealistic within the time horizon of the intervention. When assessing the achievements of the project, this point of departure must be kept in mind as a mitigating factor.

It is interesting to note, though again with caution, that the score for the organisation and management domain dropped dramatically from 2009 to 2010 and 2011. By contrast, the score for human resources increased from 2.00 in 2009 to 2.57 in 2011, after a slight dip in the intervening year. It is reasonable to infer that this increase resulted largely from the massive capacity-building activities of the IDP. The same pattern is discernible in the audit standards and methodology domain, which plausibly can be attributed to IDP activities such as the production of manuals and training in their use. Overall, the average score for Malawi increased from 2.29 in 2009 to 2.41 in 2011, which is a significant improvement. Still, NAO remains at the comparatively low developing level of performance in terms of the AFROSAI-E scoring schema.

It is no secret, albeit not substantiated by way of a survey, that the image of NAO leaves a lot to be desired. A perception survey had been initiated but never completed. The institution has been seen as a fault finder rather than a vehicle for improving government accountability and transparency. The oversight function of NAO is in the interest of the general public and the taxpayers and a contribution to democratic governance. Still, audit reports are not adequately publicised and their use not explained to the general public. Audit reports are heuristic devices intended

to improve the performance of the auditees, not to put them on the spot for failing to live up to standards. This needs to be conveyed to the general public. Towards improving the profile and image of NAO and raising the awareness of the institution by the general public, a Public Relations Officer (PRO) was recruited. This was a follow-up to a recommendation by the institutional assessment report. The PRO has taken a four-pronged approach to external stakeholders: (a) the PAC of Parliament has been targeted with sensitisation sessions in 2011 and 2012, as well as meetings on performance audit reports; (b) an ad hoc mass media forum has been set up to improve liaison with the public through the media. However, this activity has been dependent on IDP funding which dried up in mid-2012; (c) a mailing list has been compiled with media, donors and civil society organisations as the principal recipients; (d) a website – [www.nao.mw](http://www.nao.mw) – has been set up to provide general information and for uploading of audit reports. However, after repeated failed attempts to access the website, we must conclude that it is not functioning at present. An open day at NAO has also been organised.

***(b) Global integrity scores<sup>2</sup>***

The Global Integrity scores are expert assessments, so again these data should be treated with caution.<sup>3</sup> There are three relevant indicators for NAO: (a) in law, is there a national supreme audit institution, Auditor General or equivalent agency covering the entire public sector?; (b) is the supreme audit institution effective?; and (c) can citizens access reports of the supreme audit institution?

The scores go from 1 to 100, with 100 as the top mark. But the aggregation is done on the basis of (a) yes/no questions and (b) assessments granting scores of 100, 75, 50, 25 or 0. Yes or no questions yield a score of either 100 or 0. This is the reason why NAO scores 100 on the first indicator (our evaluation is arguably more nuanced).

**Table 6: Global integrity scores for Malawi**

Indicator	Score
1. In law, is there a national supreme audit institution, auditor general or equivalent agency covering the entire public sector?	100
2. Is the supreme audit institution effective?	88
a) In law, the supreme audit institution is protected from political interference	Yes
b) In practice, the head of the audit agency is protected from removal without relevant justification	100
c) In practice, the audit agency has a professional, full-time staff	75
d) In practice, audit agency appointments support the independence of the agency.	100
e) In practice, the audit agency receives regular funding	100
f) In practice, the audit agency makes regular public reports	50
g) In practice, the government acts on the findings of the audit agency	100
h) In practice, the audit agency is able to initiate its own investigations	75
3. Can citizens access reports of the supreme audit institution?	83
a) In law, citizens can access reports of the audit agency	Yes

<sup>2</sup> See <http://www.globalintegrity.org/report/Malawi/2011/> for the full data source and methodology of the Global Integrity Scorecard.

<sup>3</sup> Assessments were provided mainly by Mercy Jamali, Department of Political and Administrative Studies, Chancellor College, Zomba; and Henry Chingaipe, Centre for Governance and Development Research, Lilongwe.

b) In practice, citizens can access audit reports within a reasonable time period	50
c) In practice, citizens can access the audit reports at a reasonable cost	100

The Global Integrity Scorecard paints a fairly positive picture of NAO, one which does not square with its own self-assessment in the AFROSAI-E scores. Nevertheless, it is worth noticing that in domains where NAO scores lowest in the Global Integrity Scorecard regards public reporting and citizen engagement.

### *(c) Public expenditure financial accountability (PEFA) scores*

PEFA assessments are standardised scorecards to gauge the strength of a country's public financial management system. They matter greatly for donors' perceptions of the financial accountability of governments. The methodology is again an expert assessment, but based on multiple sources of information and a more rigorous scoring methodology.

To depict the trajectory of performance, the relevant PEFA scores for NAO are shown for 2011, 2008 and 2006 (Pohl Consulting & Associates 2011). Scores range from A (best) to D (worst).

**Table 7: PEFA scores for Malawi**

Indicator	2011	2008	2006
Scope, nature and follow-up of external audit	D+	D+	D+
Legislative scrutiny of the annual budget law	D+	B	No data
Legislative scrutiny of external audit reports	D+	D+	D+
Effectiveness of internal audit	D+	C+	D+

These indicators are compiled at a high aggregate level. Our evaluation report provides a more granular assessment of performance. However, the PEFA indicators show that the audit functions is rated fairly low in the overall PFM system, and that there has been no positive trend. If any trend emerges it is a negative one.

Overall, the analysis of secondary data sources shows inconsistency between the major indices, even though they are highly aggregated. Nevertheless, such indices matter, and NAO has generally not performed well as derived from these sources.

## **5.4 Efficiency**

Efficiency is a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. In other words, it is a relational measure, i.e. the ratio of inputs to outputs. As a criterion, efficiency is exceedingly difficult to handle with a reasonable degree of precision because so many extraneous factors intervene, as well as the lack of detailed information necessary to assess efficiency. The difficulty is exacerbated by the resource constraints of the evaluation. We are, in effect, compelled to treat this criterion cursorily.

In its own internal assessment NAO conceded in its 2010 Annual Progress Report that “[d]eficiencies in information flow and lack of clear division of responsibilities

impede optimal use of resources. Low salary level has [adverse] impact on focus and motivation.” Despite these deficiencies the report asserted that “... the efficiency of the office is being rated high...” (NAO 2010: 27). That may very well have been a correct description of the situation but the report offered no substantiation.

The mid-term review undertaken by Econ Pöyry (2011: 23-24) pointed to weaknesses that ostensibly reduced the efficient use of resources. Particular attention was drawn to “... significantly higher expenditures than planned in particular related to training activities such as seminars and participation in international events as well as sensitisation meetings with external stakeholders.” It was questioned whether this was good value for money. Furthermore, the mid-term review drew attention to the low level of transparency and openness; in particular regarding the use of allowances.

We have detected no obvious wastage in the normal ways in which the IDP resources have been managed. There are notable exceptions, however. The audit by Deloitte (2012) revealed irregularities that in some cases may be termed fraudulent (i.e. the improper use of allowances) and in other cases wasteful. The lack of follow-up on the part of NAO between short-term OAGN missions can also be characterised as wasteful, although it is well-nigh impossible to quantify the direct wastage, let alone the indirect effect on NAO’s overall functionality. It can only be speculated that the kind of rent-seeking behaviour that the Deloitte report uncovered is indicative of the institutional ethic and culture of NAO, which would be expected to lead to significant inefficiencies.

## 5.5 Impact

Impact denotes the long-term effects of an intervention, positive and negative, direct or indirect, intended or unintended. The impact criterion can be broken down into: (i) immediate output; (ii) intermediate outcome; and (iii) long-term durable effect. We have assessed output and to some extent outcome. The former refers e.g. to training sessions and manual production, etc. The latter pertains e.g. to the extent to which performance audit reports have set in train reform or rectifying processes in the audited institutions. However, given the short duration of the intervention (five years only) relative to its magnitude and institution-building ambition, it is premature to measure impact with any appreciable precision. For short-term outputs to take hold, a longer time horizon is needed.

To assess long-term impact is far more difficult because the time horizon is critical. The institutional collaboration between the OAGN and NAO has lasted only five years, which is a fairly short period in the larger scheme of things. It is a flaw of most aid interventions that their duration is too short. In any circumstances, institution-building is a long-term undertaking. It is not unreasonable to think in terms of decades rather than years when such ambitious projects are embarked upon. The OAGN does not consider itself a consulting agency offering short-term advice. In a

jocular vein the motto has been coined that “we stay overnight”. Given the fact that NAO was in a weak state of affairs as a SAI when the agreement between the two institutions was entered into in 2007, the importance of the time factor is reinforced. Arguably, the long-term nature of the OAGN’s engagement would justify rephrasing the motto: “We settle for staying no less than a decade or two.” At any rate and regardless of the actual duration of the intervention, we have endeavoured to provide a plausible argument about the likelihood of long-term impact, albeit without hard evidence in terms of indicators.

Much as we would have liked to investigate further how and to what extent the two completed and submitted performance audit reports had impacted on the auditees – Viphya Plantations (Malawi Government 2011) and Teaching and Learning Materials Programme (Malawi Government 2011b) – we only partially managed to do so. It should be recalled that while these reports had been submitted to the PAC through the Ministry of Finance, none of them had yet been deliberated upon by the PAC or Parliament in plenary. Even so, it appears that they had found their way informally to the auditees. The headquarters of the Viphya Plantations are located in the Northern Region and the Lilongwe branch is a mere liaison office unable to answer questions about follow-up action on the performance audit report. Owing to the long distance to headquarters our time constraint did not allow for a visit to ascertain whether any action had been initiated. We did interview, however, a representative of the relevant unit in the Ministry of Education handling the procurement of teaching and learning materials. It transpired that the criticisms and recommendations contained in the audit report had been taken seriously. Action was being taken but it was too early to tell what the long-term impact might be.

We also had occasion to interview a representative of the Road Traffic Department which had been subjected to a performance audit, although we did not get access to the audit report itself, because it had not yet been formally submitted by NAO due to the Auditor General’s post being vacant. Hence, his mandatory signature was missing and prevented timely submission. Still, the Road Traffic Department had evidently read the performance audit report. The response was similar to that of the procurement unit in the Ministry of Education. Action was being taken but it was too early to say what long-term impact it might produce.

It was lamented in both cases that resource constraints made it difficult to implement some of the recommendations, even though they were justified. It was also intimated that although the performance audits were generally sound in terms of quality, they had allegedly been produced by junior NAO staff who lacked the depth of knowledge of the auditee that a performance audit required.

## **5.6 Sustainability**

Closely related to impact, sustainability expresses the continuation of benefits from a development intervention after significant assistance has been discontinued, the

probability of continued long-term benefits, and/or the resilience to risk of the net benefit flows over time. Again, the time factor is of critical importance. Hence, it is feasible to assess sustainability only a considerable time after the intervention has been completed. In this particular case, assistance to NAO was discontinued in mid-2012 after five years of activity. It is premature, therefore, to gauge its sustainability proper. Besides, sustainability is likely to be influenced by the political-economic environment and the formality/informality divide. Nevertheless, we pinpoint how immediate outputs and outcomes may have laid a foundation for sustainability, albeit not offering a guarantee. We have elicited information that go some way towards suggesting sustainability, e.g. based on inter-subjective validation reflecting the perceptions of respondents.

Sustainability refers to the continuation of benefits accruing from an intervention after significant assistance has been discontinued. Similar to impact, the short duration of the intervention renders it premature to assess sustainability. Excessive dependence on foreign funding tends to undermine long-term sustainability. A few examples may serve to illustrate how dependent NAO was on the IDP, as depicted in the table below.

**Table 8: Ratio of IDP to GoM funding of NAO**

Source	Amount in MWK		Percentage share	
	2010	2011	2010	2011
IDP	167,746,938	167,746,938	37.57	32.02
GoM	278,740,000	356,123,834	62.43	67.98
Total	446,486,938	523,870,772	100.00	100.00

Source: NAO Under Secretary (US) for administration

The table covers two years but suggests that funding through the IDP makes up a sizable proportion of total NAO revenue, roughly one-third. Such a proportion is not unique to NAO. Other government institutions are in similar dire straits. Indeed, the overall national budget of Malawi is dependent on foreign funding to the tune of about 40 per cent. It is conceded that other donors have also provided funding in those years, e.g. DfID, but that only accentuates the dependency syndrome. The suspension of IDP funding was therefore a heavy blow to NAO and our respondents vented frustration over that fact and the suspension or postponement of activities as a result.

Nevertheless, what can be clearly said about the sustainability criterion based on our observations in Malawi is that gains are easily reversible. The cancellation of the collaboration was a necessary institutional response, but with dire consequences for sustainability of the results achieved by mid-2012. In the future, this risk should be actively mitigated.

## 6. Redesigning the theory of change

The ToR asks the team to provide forward-looking guidance, based on the evaluation findings. As explained by Ray Pawson (2003: 488), ToCs are useful for project design because they “produce a sort of ‘highway code’ to programme building, alerting policy makers to the problems that they might expect to confront and some of the safest measures to deal with them. What the theory-driven approach initiates is a process of thinking through the tortuous pathways along which a successful programme has to travel.” We therefore propose an outline for a redesigned ToC for potential future OAGN/NAO collaboration, based on the ToC evaluation analysis conducted in section 6. This redesign attempts to reduce the number of preconditions (red boxes in figure 2, listed again in the text box below) by proposing project activities, outputs and outcomes that would address these.

### **Box 2: Preconditions of effectiveness**

The ToC analysis above identified the following preconditions for project effectiveness:

- Adequate staffing resources, NAO independence and strong leadership;
- NAO institutional culture of integrity and appropriate leadership structures;
- Buy-in from ministries and internal audits, ability to override vested interests;
- Performance audits not one-off events, follow-up reports to be produced;
- Collaboration with other national integrity institutions;
- NAO autonomy to pursue controversial cases and resources to prove misconduct and follow up on past reports;
- Perpetrators sanctioned appropriately by judicial system when identified.

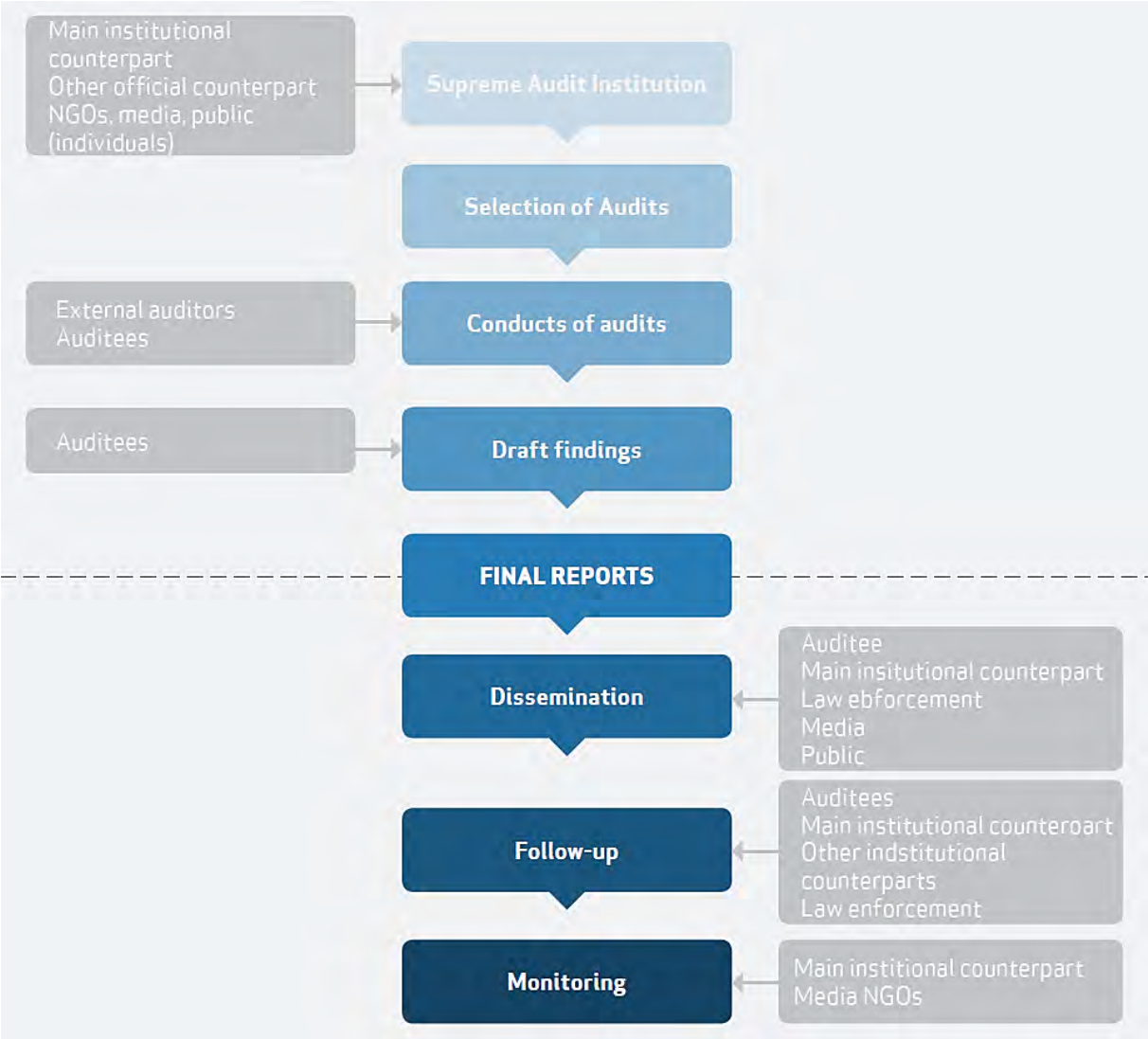
Preconditions for increasing NAO’s effectiveness centred on two main issues: (a) weak leadership; and (b) a lack of independence/autonomy. The new ToC design would seek to remove these constraints by expanding the project to work directly on leadership support and stakeholder mobilisation for legislative change. The new proposed activities (purple boxes in figure 5) would entail having a long-term advisor (national or international) to provide support to the NAO leadership in change/reform management efforts, as well as a long-term coordinator (national or international) to facilitate collaboration with civil society and public representatives, for example Parliament, faith-based organisations, mass media and NGOs addressing governance and anti-corruption issues. The OAGN may not have in-house competence to fill these positions but this needs assessment goes beyond the remit of the present evaluation.

The importance of SAI engagement with relevant stakeholders (auditees; other institutional counterparts, particularly parliaments, internal audit units and anti-corruption agencies; NGOs; church associations; and the media) is receiving increased attention, but arguably remains an area with little documented evidence. Reed (2013: 3) argues that effective engagement with auditees, parliaments and other government institutions will sharpen the focus and improve the quality of audits and increase the probability that audit reports are acted upon, and that effective



engagement with civil society will institutionalise public pressure for particular, important issues to be audited and for financial accountability of public institutions. Engagement with stakeholders is therefore vital for a coherent ToC. In Malawi, as shown above, the relationship with Parliament via the PAC is good, and auditees are generally content, but NAO has otherwise no or poor relationships with other stakeholders. Figure 3 below shows the key areas of engagement throughout the state audit cycle (on the importance of the SAI environment and collaboration with other stakeholders see DfID (2005) and Van Zyl et al. (2009)).

**Figure 4: State audit cycle and stakeholder engagement**



Source: Reed (2013: 5)

There would also be a need for substantial short-term inputs in specific specialised areas. Moreover, efforts to strengthen audits need to acknowledge the reliance of NAO on the internal audit (IA) units of the auditees and the Ministry of Finance. For example, the fact that NAO and IA units use different auditing methodologies is problematic. The OAGN cannot be expected to lead efforts to streamline the broader PFM processes, but as a minimum it should engage with actors such as the World

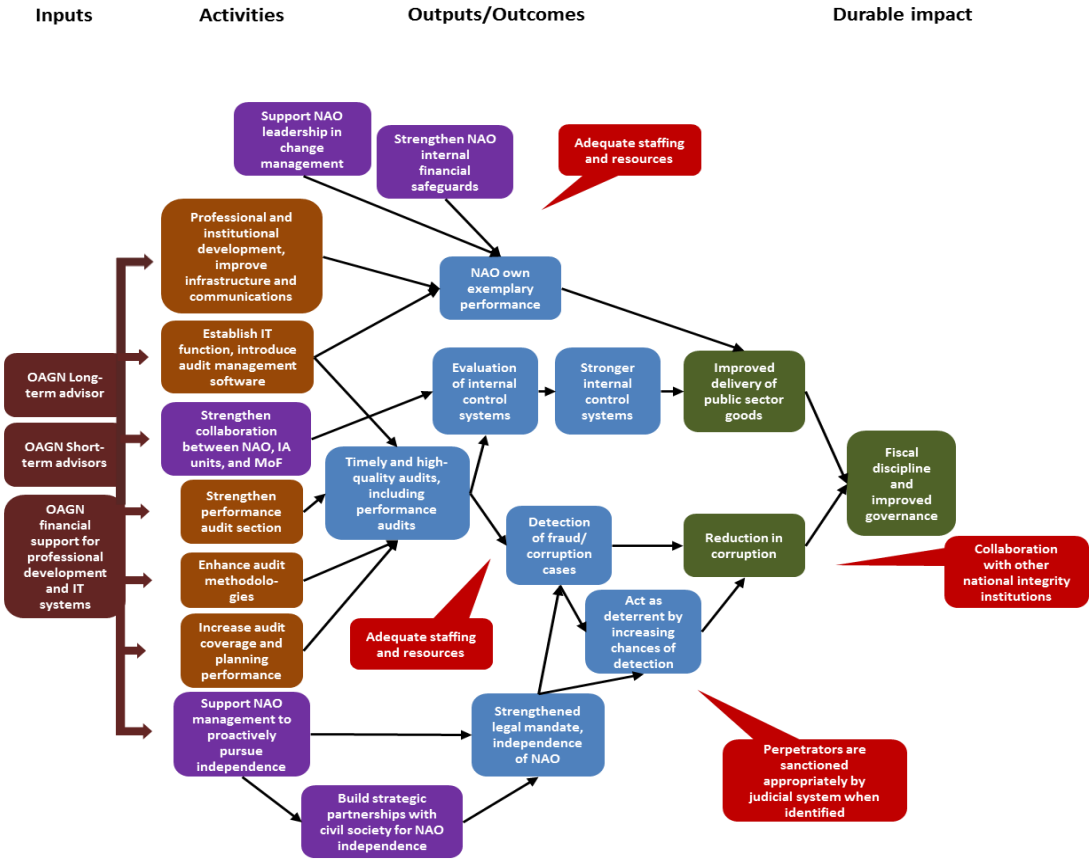


Bank to promote the streamlining of processes and sharing of standards that will benefit NAO. Greater international coordination and perhaps even pooling of resources between SAIs delivering technical assistance could potentially maximise the value of short-term inputs by exchanging good practices and lessons learned.

Such initiatives would not remove all the constraints of the project. As shown, staffing and resource limitations are likely to persist and hamper results achievement in years to come. The judicial system is unlikely to change significantly in the foreseeable future, thus making convictions and the deterrent effect less of a threat. Moreover, collaboration between national integrity institutions is poorly institutionalised and formalised. Nevertheless, the main point is that the OAGN can reduce a number of constraints by investing in activities around leadership support and civil society and mass media engagement, drawing on internal and external expertise.

Finally, a note on the time dimension is warranted. The redesigned ToC depicted below is not designed to produce achievable results within a 3-5-year project cycle. The World Development Report 2011 states that it took the world’s 20 fastest-moving countries an average of 27 years to bring corruption under reasonable control (World Bank 2011: 108). Any future project design should take a long-term perspective, identifying attainable short-term objectives and milestones that point in the direction towards the ultimate goal.

Figure 5: A redesigned theory of change



## 7. Towards the future and the way forward

In late 2010 and increasingly in 2011, tension started to mount between the OAGN and NAO. The issues were multiple but centred on two in particular:

- (a) Suspicion about financial irregularities within NAO which were later confirmed in an audit report by Deloitte;
- (b) Dissatisfaction on the part of the OAGN with NAO's reporting and lack of follow-up on agreed activities.

The former was related to shortcomings in NAO's internal financial management in general, not specifically to the implementation of the IDP. However, the IDP also featured prominently as explained below. An important aspect of the irregularities – thoroughly documented by Deloitte (2012) – had to do with the uses and abuses of allowances. It was discovered that the controls of the payment of such emoluments were lax and often not in line with best practices. In several cases payment was even in breach of existing agreements and procedures. For example, allowances were paid to staff involved in activities that were part of their normal duties at home base. Inconsistencies were also noted in the calculation of allowances, e.g. the number of days was 'stretched' beyond the actual time spent away from normal duty station, be it for training or auditing purposes. In other cases, full allowances were paid when partial expenses (e.g. accommodation and some meals) had been provided for in kind. Similarly, attendance sheets were not always signed by recipients of allowances. In the same vein, many recipients had not signed for their collection of allowances. Other irregularities included missing receipts and supporting documents regarding fuel purchase and the flouting of procurement regulations with regard to quotations from at least three potential suppliers. These malpractices led to the misappropriation of IDP funds that should otherwise have been spent on approved activities. The 2011 Econ Pöyry mid-term review (2011) also raised the issue of excessive spending on allowances to the detriment of other activities.

In its comment to these revelations about allowances, NAO conceded that receipts had been misplaced in some cases but in other regards stated defensively that "... the allowances were properly paid within Government rules and regulations."

Apart from irregularities in the disbursement of allowances, the Deloitte report noted that a large amount (nearly MWK 35 million) was 'borrowed' from the IDP budget to meet financial shortfalls in the implementation of a DfID/NAO-funded project regarding auditing of local councils around the country (Deloitte 2012:14). This 'loan' was ostensibly seen as a stopgap measure on the assumption that funds would later be forthcoming from the Malawi Ministry of Finance or supplementary funds from DfID so as to enable repayment to the IDP. The justification by NAO was that the DfID/NAO-funded project had ground to a halt due to lack of funds. Instead of withdrawing auditors from the field before completion of their task, NAO decided to 'borrow' from the IDP to enable auditors to carry on with their tasks until completion.

This occurred in contravention of Article III of the Norway and Malawi agreement regarding funding of the IDP, which states that the grant of NOK 18 million is "... to be used exclusively to finance the Programme [IDP] in the planned period FY 2009/10–FY 2011/12." No prior consent had been obtained from the RNE to make this 'loan' transaction. Deloitte recommended that the financial losses incurred on account of the irregularities be repaid to the IDP. The irregularities were considered either as misappropriation or inefficient use of funds.

The findings of the Deloitte audit were so serious that the OAGN became concerned about its own reputation as a SAI. Could its association with NAO as an institution where such irregularities occurred routinely and apparently with impunity – and in some measure defended or belittled when uncovered – rub off on the OAGN's image? Both NAO and the OAGN are institutions intended to safeguard accountability and integrity. Indeed, 'integrity' is purportedly one of NAO's core values and promotion of accountability forms part of its mission. Several respondents in the OAGN perceived a sense of 'guilt by association' which was untenable.

Concerns had been raised in exchanges of several letters between the Auditors General of Malawi and Norway – Reckford Kampanje and Jørgen Kosmo, respectively – and in formal annual meetings. An extraordinary meeting was held in Geneva on 13 September 2011 in order to iron out differences and set the stage for a fresh start. The agreed minutes from that meeting detailed the concerns by the OAGN and set out agreements item by item for follow-up action by both parties. A visit to Malawi by Mr. Kosmo took place in November 2011 to reinforce the seriousness of the matter.

Two Malawian consultants – Jones Chikoko and Booker Matemvu – were hired for stints of one year each with a view to assessing and strengthening the line functions of financial management, planning and monitoring within NAO. Their reports make disappointing reading (Chikoko 2012 and Matemvu 2012). They reiterated the perennial resource constraints that had inhibited remedial action for a long time and noted the resultant low staff morale, especially after the suspension of IDP funding. Chikoko (2012:8) pointed out that prudent financial management was yet to be applied (as at mid-2012) "... so as to avoid irregular, unethical and illegal transactions and dealings." He claimed that NAO's financial management system could not be relied upon. Both consultants' reports lamented the lack of commitment on the part of NAO's management, especially the lack of champions for change – whether owing to attitudinal or structural factors – along the lines suggested by the 2010 institutional assessment report. In conclusion, the Malawian consultants detected a lack of clear direction and agreement between NAO and its development partners.

That all was not well with respect to internal financial management was admitted as reflected in NAO's Internal Circular No. 1 of 2012 from the Auditor General to all members of staff, dated 21 June 2012 (Ref. AUD/5/6). In this circular the Auditor General expressed concern about the anomalies that had been brought to his

attention involving prevailing practices in financial management. He furthermore detailed the existing regulations and called upon all officers concerned to strictly adhere to the regulations in order to strengthen the financial management system. Failure to comply would result in disciplinary action.

As late as in early March 2012, the position of the OAGN was to prolong its agreement with NAO. However, as no significant progress was witnessed in the subsequent months the mood had changed by June 2012. The tension between NAO and the OAGN came to a head in mid-2012 as expressed in a letter by the Auditor General of Norway, dated 13 June 2012 and addressed to his homologue in Malawi, to the effect that cooperation with NAO would be suspended with immediate effect. The cited reasons were the failure by NAO to address the concerns the OAGN had raised repeatedly: unsatisfactory internal controls, lack of transparency and accountability. While acknowledging that some factors were beyond NAO's control, Mr. Kosmo asserted that it would be feasible to overcome the capacity constraints if NAO would adhere to good practices and standards, as well as prudent internal management. Mr. Kosmo further lamented that "... the existing corporate culture in NAO does not appear as conducive to improved performance." Notwithstanding this harsh conclusion, the door was left ajar for the resumption of collaboration "... if substantial changes representing concrete improvement of internal control and accountability as well as commitment for open dialogue [are] demonstrated by NAO."

In response to Mr. Kosmo's letter, Mr. Kampanje wrote that he was saddened by the decision by the OAGN to suspend the collaborative relationship and stated that NAO was in a process of rectifying a number of the shortcomings raised. It is evident that the perception of reality by the respective Auditors General differed dramatically.

### **7.1 Towards resuscitation of NAO/OAGN collaboration?**

Notwithstanding frictions in the past, it is evident that both the OAGN and the RNE would like to see the resuscitation of the collaborative relationship between the two sister SAIs. The OAGN feels it still has much to contribute towards putting NAO on a path towards improved performance, and the RNE for its part, being preoccupied with governance, considers NAO a pivotal institution in the accountability and integrity system of Malawi. However, neither is prepared to enter into a new phase without reviewing the current situation carefully. The RNE has set two main conditions for the resumption of funding: (a) repayment of monies that were 'borrowed' from the IDP; and (b) streamlining of the internal financial management system within NAO. The first condition has already been met but the second one is bound to take more time. Putting in order a house where numerous irregularities have been commonplace owing to faulty controls and lax discipline cannot be done overnight.

Recently, there are some encouraging developments. After a hiatus since the resignation/retirement of Reckford Kampanje in November 2012 a new Auditor General was appointed and endorsed by Parliament in June 2013: Stephenson

Kamphasa (Khunga 2013). Until his appointment he was a partner in Mwenelupembe, Mhango (MKM) and Company. Previously he has worked in the public sector in the Accountant General's Department, and at the Malawi Institute of Management (MIM). Moreover, he has experience from working with the international auditing firm KPMG. He took up duty at NAO on 1 July 2013. The new appointee to the top position in NAO paves the way for a fresh start and new initiatives in the direction of greater transparency and accountability. In addition, there have been other changes in NAO's management layer that augur well, i.e. the retirement of non-reformers and the promotion of reformers to higher positions.

It is hard to overestimate the importance of leadership in an institution. Many respondents point to the centrality of leadership. Whereas good leaders set standards and provide examples to be emulated, bad or weak leaders thwart the efforts of their subordinates, creating frustration and despondency in their wake. During the implementation of the IDP, the OAGN has no doubt been aware of the leadership challenge. As an external agency, however, it has not had the inclination to act decisively owing to the alignment principle which would suggest a position of reticence. Nor has the OAGN had the required clout to change the leadership even if it wanted to. On the other hand, the paradox of the matter is that leadership goes to the core of functionality of an institution. No amount of capacity-building in technical auditing skills would make much difference if the leadership were incapable of creating a working environment conducive to bringing those skills to fruition. Again, the significance of the distinction between capacity-building and institution-building comes to the fore.

An audit of NAO has been commissioned, to be undertaken by the KPMG. It is expected to provide an up-to-date report on NAO's functionality, pointing out strengths and weaknesses. Such a report will no doubt provide important inputs into a diagnosis of NAO and suggest pathways out of its present predicament. While some have alluded to the possible conflict of interest situation brought about by the former employment of the new Auditor General by the KPMG, his association with that company is judged to lie sufficiently far back in history so as not to affect the current audit of NAO: no conflict of interest exists.

## **8. Lessons learned and recommendations**

Collaboration between the OAGN and NAO was dramatically suspended in 2012 owing to irregularities and lack of follow-up by NAO on agreed action points. However, since the suspension a number of developments have occurred that might set the stage for remedial action with regard to the internal management of NAO. These two sets of factor give rise to two mutually exclusive options for the future:

- 1) **Termination of the erstwhile collaborative relationship between NAO and the OAGN in whatever form.** The justification of this extreme option would be the perception of NAO as an incorrigible institution along with most comparable

institutions in the country. Selecting this option would mean, by implication, that Malawi be dismissed altogether as a partner country generally; that Malawi, being considered a hopeless 'basket case', would simply be dropped as an aid recipient. In the circumstances this option would hardly be open.

- 2) **Resumption of the previous collaborative venture, albeit on certain terms and conditions.** The justification of this accommodating option would be based on a perception that – notwithstanding a host of institutional weaknesses as enumerated in sections above – NAO and Malawi broadly speaking is no 'basket case' that ought to be abandoned. This justification for the second option would have several elements that will be discussed in the subsequent paragraphs.

At the general policy level, Malawi is in dire need of improved governance structures and NAO forms part of the accountability chain of the governance system along with other institutions of restraint. This is basically the position of the RNE in Lilongwe and in line with Norwegian aid policy. However, the conditions are two-fold: (i) the repayment of the IDP 'loan'; and (ii) the streamlining of the internal financial management system in NAO to make it more accountable and transparent. The former condition has already been met but not the latter – yet. The OAGN takes more or less the same position as the RNE does. As a technical agency, the OAGN is of the view that it still has much to contribute to improving NAO's performance. Past difficulties of collaboration should not stand in the way for renewed efforts. For its part, unsurprisingly, NAO is very keen to resuscitate a relationship that was not only beneficial technically but also added financially to the institution.

When the three main parties seem inclined towards resumption of collaboration in a phase IV of the IDP, what is required for that to happen? In the paragraphs below, we have considered in order of priority a series of conditions that need to be met and attendant recommendations, plus accompanying risk assessments.

- (a) Pursuant to the second option above, as a first condition a thorough **status report** should be compiled. It should be based on existing reviews and evaluations, as well as a fresh collection of information. This exercise should revisit the 2010 institutional review report and draw on the forthcoming audit of NAO as a useful source of updated information. The status report should be done jointly by the OAGN and NAO to ensure mutual ownership. Care should be taken to be frank so as to avoid self-deception which would later prove untenable when encountering challenges. There is a risk that misguided diplomacy might sweep some problems under the carpet.
- (b) Based on the status report, a detailed **baseline** should be established with specific data on relevant dimensions to be addressed in a new intervention. Again, this should be a joint exercise by the OAGN and NAO. The risk is that the baseline may be sub-standard as was the case in the previous phase, which substantially lowered the evaluability of the present intervention.
- (c) Beyond the status report and the baseline study, a **new project document** should be designed. It should be informed by a redesigned theory of change

along the lines suggested above. Special attention should be paid to the broad political economy context and the formality/informality divide in decision-making processes. Furthermore, the new project should specify goals and objectives in operational terms so as to facilitate monitoring of progress, preferably by means of qualitative or qualitative indicators. The project document should emphasise *institution*-building rather than mere capacity-building in a technical sense. If the OAGN as a technical auditing agency does not possess the requisite expertise in institutional development, such expertise *must* be brought in from elsewhere – from Malawi, Norway or beyond. The risk is that the project document might once more be too narrowly formulated, leaving out significant components.

- (d) In the interest of institution-building, priority should be given to the **use of IT** in internal communication within NAO, e.g. a server with an archival function. Similarly, **internal financial management** and accounting should feature high on the agenda, as should the streamlining of decision-making procedures and processes. Attention should also be assigned to leadership. The risk is threefold: (i) budgetary constraints may render investment (including maintenance) in IT hardware and software infeasible; (ii) internal resistance may frustrate efforts to putting in place a functioning, transparent financial management system; (iii) the top leadership may be constrained by the existing entrenched institutional culture so as to jeopardise its manoeuvrability towards putting the NAO house in order.
- (e) Accord high priority to **enhancing the independence** of NAO. This is not only an objective in its own right but equally much a contextual factor that bears decisively on NAO's performance across the board. Towards that end, a multi-pronged approach should be adopted. Advocacy in conjunction with the PAC directly vis-à-vis the executive branch of government is relevant. In addition, indirect advocacy through civil society is likely to be effective. So is advocacy through the mass media. The PAC, civil society and the media all serve watchdog functions on behalf of the taxpayers and would therefore be prepared to forge an alliance. The public relations officer would play a key role in this endeavour. The risk is that resistance from the executive might block efforts, as has been the case to date.
- (f) Adopt a long-term **time horizon** for the new intervention, indicatively for a period of two decades. It is a robust lesson learned from development projects that institution-building is time-consuming, especially when starting from a low base. It is acknowledged that a commitment for such a long period is legally impossible in the Norwegian political system. Formal agreements are always predicated on parliamentary approval. However, collaborative agreements can contain long-term commitment as a statement of intent, with specified milestones to be reached at certain intervals. As part of its monitoring system the project document should give clear signals about action to be taken in case of non-achievement of milestones. In the same vein, the project document should comprise an exit strategy. The main risk is that the Norwegian aid authorities may take exception to such a long-term commitment. Moreover, the specification of milestones may be vague and the suggested exit strategy unclear.

For easy reading, the above conditions and recommendations are summarised in tabular form below.

**Table 9: Summary of recommendations**

No.	Recommendation	Risk assessment
1	Compile a thorough and frank status report	Status report may not be frank enough so as to yield a faulty understanding of the challenges
2	Establish a detailed baseline	Baseline may be sub-standard and lower the evaluability of intervention
3	Prepare a new project document informed by a redesigned theory of change, a political economy analysis and comprising the baseline as well as a detailed plan for monitoring progress. Emphasis should be put on <i>institution-building</i>	Project document may not be comprehensive enough as was the case in phase III
4	Give priority to the use of IT in internal communication and to internal financial management and accounting, as well as procedures for decision-making	Threefold risk: (i) budgetary constraints on procurement of computer hardware and software; (ii) internal resistance to reform; (iii) top leader constrained by entrenched institutional culture
5	Accord high priority to enhancing NAO's independence as an objective in its own right and as a contextual factor affecting overall NAO performance	The external environment may resist greater NAO independence
6	Adopt a long-term time horizon for the intervention, indicatively for a two-decade period, and with defined milestones and exit strategy	Legal reservations by aid authorities; milestones may not be clear enough; exit strategy may be fuzzy



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## **APPENDICES**

## Appendix 1: Persons consulted

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## Appendix 2: Terms of reference

### 1. Introduction

OAGN and NAO entered into a Memorandum of Understanding in November 2007, lasting for five years.

The point of departure for the cooperation in November 2007 was to support the NAO in developing and implementing strategic plans and priorities. NAO has since then developed a strategic plan for 2009-2013. This strategic plan formed the basis for the areas of collaboration between OAGN and NAO from 2009 onwards.

The parties carried out the cooperation in accordance with mutually agreed plans. A Project Document for institutional development is developed by NAO ("Project for Institutional Strengthening of National Audit Office of Malawi in cooperation with the Office of the Auditor General of Norway (OAGN) - July 2009 to June 2012", May 2009), hereinafter referred to as the Project. OAGN and NAO entered into agreement to implement this Project the 20th November 2009.

The NAO Strategic Plan 2009-2013 has been the reference of this Institutional Development Project. The project ran from July 2009 to June 2012. The overall Development Goal was to support democracy and development of good governance in Malawi in line with Malawi Growth and Development Strategy (MGDS). The strategy towards this Development Goal was to develop and build capacity of the National Audit Office of Malawi (purpose). To reach this purpose, the project had five Goals, identical with the goals outlined in the NAO strategic plan:

1. To deliver high quality and timely audit services
2. To have competent and motivated staff in place
3. To acquire & maintain infrastructure vehicles and equipment to effectively implement operational plans
4. To promote effective communication systems
5. To be a more independent institution

The project did not, however, commit to give sufficient response to all plans presented in the strategic plan, so coordination among stakeholders and other possible sources of support was encouraged.

NAO was the responsible for implementing the Project, and the role of OAGN was outlined as the following:

[...] OAGN will assist NAO by technical backstopping. [...] Short Term Advisors for designated working periods in Malawi [...] OAGN has a Long Term Advisor seconded to NAO. [...] the relation between the two sister- SAIs will include exchange visits between NAO and OAGN, and intentionally enhance increased international exposure for NAO in general" (Ref Project Document, page 16).

Some specific areas were suggested as subjects to close cooperation. They were identified based on mutual interest, needs and capacities and were addressing the

three levels of capacity building for SAIs, set out by INTOSAI's Capacity Building Committee:

1. Professional audit capacity (e.g. Audit Methods, audit manuals, developing/training staff, work planning and management and quality assurance)
2. Organisational capacity (e.g. forward planning, leadership, managing resources and governance and accountability arrangements)
3. Capacity to deal with the external environment (e.g. Parliament/legislature and the executive, audited bodies, aid donors, regional and local audit bodies and internal audit, the media and the public, professional associations and private sector auditors).

Attached are the Project Goals and Objectives (as per the main Project Document, May 2009).

## 2. Purpose of the Evaluation

The main purpose of the evaluation is to assess the extent to which the OAGN's contribution has been relevant and useful to enhancing capacity in NAO during the cooperation period.

The starting point for the evaluation should be NAO's performance and impact in relation to its over-arching goal of delivering quality audits, thereby promoting transparency, accountability and good governance in the management of public funds. The assessment should focus on NAO's development in this regard since 2007, seeking to assess the effectiveness and relevance of the OAGN's support to building the NAO's own capacity. The evaluation should focus on whether the OAGN through the cooperation has been making a positive contribution during the cooperation period (doing the right things), and whether it has been doing things in an efficient and effective manner (doing the things right).

The evaluation is one of several evaluations and reviews that will be conducted of different OAGN development-cooperation-projects in 2013. At the end of 2013, an evaluation will also be done of the total development cooperation -portfolio of OAGN. The Malawi project evaluation will thus contribute to generate learning for OAGN about the appropriateness of its methodology and work methods. The specific evaluation should inform the overall evaluation of the OAGN portfolio. The main users of the findings of the evaluations will thus be the OAGN.

## 3. Objectives and scope of work

The evaluation should:

- ✓ Assess NAO's ability to deliver high quality audits and to enforce accountability
- ✓ Assess how NAO has developed in this respect in the period of cooperation
- ✓ Assess the extent to which OAGN has contributed positively to enhancing NAO's capacity in the period of cooperation
- ✓ Assess why/why not we have contributed to enhancing NAO's own capacity



- ✓ Identify alternative means/approaches for enhancing capacity that could have been more effective and put practical recommendations forward on effective means for capacity building in the given context.

With the aim of enable the evaluation team to address the scope of the evaluation, more specific design for the evaluation has to be outlined in the technical proposal. This includes inter alia the evaluation-team's understanding of the purpose, role and subject matter of the assignment, analytical approach, research strategy and methodology.

The tenderer is free to propose alternative approaches than what has been suggested here.

#### 4. Methodological Comments and Work Plan

The consultant team will meet with key informants related to the specific project in Oslo to acquire further information and contextual background for the project.

On the basis of the meetings with key informants in OAGN, the evaluation team is expected to conduct interviews with informants related to the specific NAO-project in OAGN and also carry out a field visit to Malawi to interview key informants and possibly relevant stakeholders. Interaction with international stakeholders and visit to field (Malawi) must be carried out over a period of at least one week.

Interviews should include, but not be limited to the following:

- ✓ Interviews with project management of OAGN, the Norwegian Embassy and other relevant stakeholders,
- ✓ Interview with the key informants in NAO under the institutional cooperation between NAO and OAGN

The proposal shall follow relevant DAC evaluation guidelines, including a demonstration of how triangulation of methods and multiple information sources are being used to substantiate findings and assessments. Poorly substantiated findings will not be accepted.

#### 5. Deliverables

The deliverables in the consultancy consist of the following outputs:

- ✓ Startup meeting with OAGN in Oslo in order to present the technical proposal for the evaluation methodology and work plan
- ✓ Inception report for preliminary approval by OAGN for circulation to a selected reference group.
- ✓ Draft evaluation report for preliminary approval by OAGN for circulation to a selected reference group. The reference group will be invited to comments on structure, facts, content, and conclusions
- ✓ Final Evaluation Report
- ✓ Seminar for dissemination of the final evaluation report in Oslo

All presentations and reports are to be submitted in electronic form in accordance with the deadlines set in the time-schedule specified under Section 2 Administrative Conditions in Part 1 Tender specification of this document. The data collected during the study shall be submitted in EXCEL or word format. OAGN retains the sole rights with respect to all distribution, dissemination and publication of the deliverables.