Safeguards Assessments of Central Banks: Trends and Challenges

IMF, Finance Department
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Overview

- IMF Lending Activities & Risk Mitigation
- Safeguards Policy & Framework
- Safeguards Experience - Findings
- Trends & Observations
  - Internal Audit
  - Risk Management
IMF Risk Mitigation Measures
Safeguards Assessments

- **Ex-ante safeguards assessments of CBs**
  - Program design & conditionality
  - Limits on access; assessment of capacity to repay, financing assurances.
- **Program and post-program monitoring**
  - Ex-post measures to address misreporting

Safeguarding IMF Resources
The Safeguards Policy

- Introduced in 2000 to mitigate the risks of misuse and misreporting.
- A safeguards assessment is required whenever a country borrows from the IMF.
- Provides reasonable assurance that central banks have appropriate structures in place to manage resources and ensure the integrity of operations.
- Establishes prioritized recommendations to address key vulnerabilities. Facilitates the Board’s decision on approval and review of lending arrangements.
- Promotes international good practices in transparency, accountability and autonomy.
Safeguards Framework
ELRIC and Governance Focus

External audit mechanism

Legal structure and autonomy

Financial Reporting framework

System of internal controls

Internal audit mechanism

Governance
Safeguards Assessments
Overview of Experience

272 assessments completed as of end-April 2015

94 Central Bank’s assessed, regionally

AFR: Africa
APD: Asia Pacific
EUR: Europe
MCD: Middle East & Central Asia
WHD: Western Hemisphere
Safeguards Activity
By Type of Assessment

[Bar chart showing activity by type of assessment over years from 2001 to 2015]
Evolution of Safeguards

- Increased focus on governance
  - Transparency & accountability
  - Independent board-oversight
  - Central bank autonomy
- Audit Committee effectiveness
  - Scope of responsibilities
  - Qualifications and experience of members
  - Financially literate
  - Integrity
  - Independent members
Internal Audit Effectiveness Attributes

- Alignment with International Standards
- Independence, Authority and Competencies
- Reporting and Monitoring
- Oversight Arrangements
Evolution of “I” at Central Banks

Overview of Risk Ratings

- 2000 - 2005
  - Medium-High/High: 60%
  - Medium-Low: 20%
  - Low: 20%

- 2005 - 2010
  - Medium-High/High: 50%
  - Medium-Low: 30%
  - Low: 20%

- 2010 - 2015
  - Medium-High/High: 40%
  - Medium-Low: 40%
  - Low: 20%
Safeguards Trends and Observations – Internal Audit

- Quality Assessments: 23%
- Charter / Independence: 19%
- Establish: 5%
- Methodology: 19%
- Capacity: 21%
- Reporting / Monitoring: 13%
Challenges Observed: Internal Audit

**Independence**
- Legal impediments
- Status of the IA function
- Operational responsibilities
- Functional reporting to AC
- Communication of results

**Methodology**
- Risk-based audit
- Concentration on compliance
- Monitoring of recommendations
- Synergies with other assurances functions

**Capacity**
- Adequate staffing levels
- Expertise and certifications of staff
- Completion of the annual audit plans

**Quality Control**
- Readiness of the function
- Expertise to conduct the reviews
- Frequency of external reviews
Interaction with other Assurance Functions

- Effective coordination and information sharing
- Comprehensive assurance & reporting framework

- Proper coverage of risks
- Minimum Duplication of efforts
Safeguards Trends and Observations – Governance

- Establish an independent Audit Committee
- Composition of Audit Committee
- Adopt a charter for the Audit Committee
- Audit Committee should prepare annual activity report
- Oversight over internal and external audit, financial reporting, currency operations, and compliance with the Law
- Monitor implementation of audit recommendations
Oversight Mechanism
Evolution of AC at Central Banks

No Audit Committee
Form over substance
Lack of expertise or access to experts
Incomplete communication lines
Effective audit oversight
Safeguards Trends and Observations – Risk Management

- Most central banks actively monitor credit and market risks
- Business continuity planning (disaster recovery) is generally well addressed
- ERM is prevalent amongst a few banks
- For many central banks, operational risk management is a work-in-progress
Safeguards Trends and Observations – Integrated Risk Management

Integrated Risk Management Maturity Level – Sample of 50 Central Banks assessed between 2010 and 2014

- None: 52%
- Developing: 28%
- Implementing: 16%
- Mature: 4%
Thank you

Questions?

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Additional information: https://www.imf.org/external/np/exr/facts/safe.htm