“El papel del comité de auditoría: ¿Qué se necesita para tener un comité de auditoría efectivo”
The Role of the Audit Committee: What It Takes to Have an Effective Audit Committee?

XV MEETING OF CENTRAL BANK INTERNAL AUDITORS
CEMLA – SANTIAGO, CHILE
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International Monetary Fund

The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.
IMF Core Activities

- Review of member macroeconomic policies and financial developments
- Financial support to member countries facing balance of payments problems
- Provide advice to 189 member countries to foster economic stability
- Safeguards activities integral part of lending operations
IMF Operations: Safeguards Policy

- Safeguards assessments are **diagnostic** reviews of a central bank
- Cover five key areas denoted by the acronym **ELRIC**
- Anchored in international standards and promotes leading practices
- **Governance** is an overarching principle
Governance Arrangements at Central Banks

- Central bank **autonomy**, with independent oversight

- Key governance **bodies**:
  - Oversight board
  - Audit committee
  - Governor and deputies

- IMF safeguards staff currently **monitor** ~60 central banks

- Of the 60 central banks, 85% (52) have an **independent board** (majority non-executive)

- 84% of central banks have an **audit committee**

- Average **board size** is 8 members
Audit Committee – Key Attributes

- Composition/Membership
- Oversight of Internal & External Audit
- Expertise

Effective Audit Committee
Internal Audit & Oversight at Central Banks – Safeguards Experience

- Safeguards experience (April 2010 - December 2017)

- Central banks continue to have vulnerabilities in the areas of internal audit and oversight.

- 71% of assessments do not have an effective internal audit function

- 14% of assessments do not have an audit committee

- For the assessments that do have an audit committee, 78% are ineffective
Internal Audit and Oversight at Central Banks – Safeguards Experience (Cont’d)

Audit Committees: Safeguards Findings

- 48% Inappropriate composition
- 60% Inadequate expertise
- 75% Weak internal audit oversight
- 78% of assessments had an ineffective Audit Committee
- 60% Weak external audit oversight
Strong Oversight – Importance of the Audit Committee

Safeguards Risk Ratings – No Audit Committee

Safeguards Risk Ratings – With Audit Committee
### Strong Oversight – Importance of the Audit Committee (Cont’d)

#### Safeguards Risk Ratings – Ineffective Audit Committee

<table>
<thead>
<tr>
<th></th>
<th>External Audit</th>
<th>Financial Reporting</th>
<th>Internal Audit</th>
<th>Internal Controls</th>
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#### Safeguards Risk Ratings – Effective Audit Committee

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<tr>
<td><strong>Low</strong></td>
<td>22%</td>
<td>10%</td>
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</table>
Internal Audit – Key Attributes

- **Mandate**: Organizational independence and authority
- **Risk-based methodology**: Audit approach
- **Capacity**: Staffing level and competencies
- **Reporting & Monitoring**: Reporting & Monitoring, Quality assurance and improvement program
The State of Internal Audit Safeguards Findings

- 71% of assessments had an ineffective Internal Audit Function
- 51% Inadequate mandate
- 57% No risk-based methodology
- 65% Capacity constraints
- 58% Deficient reporting & monitoring
External Audit – Key Attributes

- Legal mandate
  - Accountability
    - Legal Framework

- Selection and Appointment
  - Independence of external auditor
    - Processes
    - Capacity of firm and team

- International Standards on Auditing
  - Audit Quality
    - Adherence to International Standards of Auditing

- Reporting & Monitoring
  - Publication of the financial statements, including the audit opinion
  - Management Letter and Key Audit Matters
External Audit Arrangements at Central Banks

- Requirement for an annual audit is enshrined in most CB laws
- Timeliness of publication continues to improve
Key Concluding Messages

- **Oversight** by an independent board is key for strong safeguards at central banks

- Equally important is a **strong audit committee** with:
  - Diverse composition
  - Expertise, and
  - Strong oversight mandate

- Adherence to **international standards** promotes quality and consistency

- Assurance expectations on internal audit functions are increasing, but many have **areas for improvement** and **challenges** prevail

- **Collective action** on possible solutions is needed: (i) peer central bank dialogue and reviews; (ii) stronger ownership; (iii) training and professional development; and (iv) greater advocacy and support by the standard-setter
Questions?
Reference Materials

- Safeguards Factsheet
- Safeguards Assessment Policy
- IMF Working Paper: Internal Audit
- IMF Working Paper: External Audit