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### **CD-Box 5.3 Safeguards assessment policy**

The safeguards policy was initiated in 2000 against the background of several instances of misreporting to the IMF and allegations of misuse of IMF resources. It aims at supplementing conditionality, technical assistance, and other means that have traditionally helped assure the proper use of IMF resources.

#### **Objectives of safeguards assessments**

- To provide reasonable assurance to the IMF that a central bank's auditing, financial reporting, control systems, and legal structure and independence are adequate to ensure the integrity of operations and minimize the risk of misuse of resources or misreporting of data

#### **Applicability of safeguards assessments**

- Central banks of (1) member countries with new arrangements for use of IMF resources approved after June 30, 2000, or existing arrangements that are augmented, (2) member countries following a Rights Accumulation Program (RAP) under which resources are being committed, and (3) member countries receiving Emergency Post-Conflict Assistance;
- Central banks of member countries with a Policy Support Instrument (PSI) are encouraged to undertake a safeguards assessment, which would become a requirement in the event of a need for access to IMF resources;
- Voluntary for central banks of members with staff-monitored programs; and
- Not applicable to first-credit-tranche purchases, stand-alone Compensatory Financing Facility arrangements, or Emergency Natural Disaster Assistance (ENDA).

#### **Methodology**

- Safeguards assessments follow an established set of procedures to ensure consistency in application. All central banks subject to an assessment provide a standard set of documents to IMF staff, who review the information and communicate as needed with central bank officials and external auditors. The review may be supplemented by an on-site visit.
- The assessment covers five key areas (ELRIC): the **E**xternal audit mechanism, the **L**egal structure and independence, the financial **R**eporting framework, the **I**nternal audit mechanism, and the internal **C**ontrols system.
- The outcome of a safeguards assessment is a confidential report that identifies vulnerabilities and makes recommendations to mitigate the identified risk. Central bank authorities have the opportunity to comment on all safeguards assessment reports. The conclusions and agreed-upon remedial measures are reported in summary form to the IMF Executive Board at the time of arrangement approval or, at the latest, by the first review under the arrangement, but the safeguards report itself is not made available to the Board or the general public.
- Central banks provide IMF staff with their financial statements and related audit reports for as long as IMF credit is outstanding. This information is used to monitor new developments in a central bank's safeguards framework. IMF staff also monitor the implementation of previous safeguards recommendations.

#### **Findings of safeguards assessments**

The findings of safeguards assessments to date indicate that significant, but avoidable, risks to IMF resources may have existed in certain cases, although identified vulnerabilities have generally declined in significance and frequency over time. Typical recommendations of an assessment include the following:

- independent external audits in accordance with international audit standards;

- regular reconciliation of the economic monetary data reported to the IMF with the underlying accounting records of the central bank;
- enhancement of the financial reporting framework, through the adoption of International Financial Reporting Standards (IFRS); and
- publication of the audited financial statements.

**Safeguards outreach**

- IMF staff conduct annual seminars on safeguards assessments for central bank officials at IMF headquarters and regional training centers in Singapore and Vienna. As of April 30, 2007, some 304 officials from 105 countries had attended these seminars.
  - Broader outreach involves publication of the staff's papers and other background information concerning the safeguards policy on the IMF Web site, at [www.imf.org/external/fin.htm](http://www.imf.org/external/fin.htm).
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