I. Introduction

Autonomy (independence) is important for central banks to effectively carry out their mandate. The counterweight to central bank autonomy is transparency and accountability. This section provides an overview of central bank financial accountability and transparency mechanisms in the MCD region. It is based on analysis of publicly available information, mainly through the review of central banks’ financial statements and annual reports, as well as IMF staff reports for the respective countries. It does not cover accountability or transparency with respect to broader central bank communication to the public, including on policy decisions and actions.

II. Transparency

Key aspects of transparency from a financial reporting perspective include: (i) publishing a full set of audited financial statements; and (ii) applying a widely recognized accounting framework, such as, International Financial Reporting Standards (IFRS), that provides consistent and comparable information on the financial position and activities at the central bank. Regular reporting of reliable financial information is one of the key principles of central bank accountability.

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1 IFRS were developed and are maintained by the International Accounting Standards Board (IASB), an independent accounting standard-setting body. The IASB’s objective is that the standards be applied on a globally consistent basis. IFRS are now used by more than 100 countries, including by more than two-third of the G20.
Transparency practices in the MCD region are mixed. Currently, only around 60 percent of central banks in the region (19 out of 32) publish their annual financial statements.\footnote{A set of annual financial statements includes: (i) statement of financial position; (ii) income statement; (iii) cash flow statement; (iv) statement of changes in equity; and (v) disclosure notes.} A further five central banks publish an abbreviated version of their financial statements, i.e., only the statement of financial position and/or income statement. Eight central banks do not publish their financial statements, either because they are in the midst of conflicts, have confidentiality concerns or due to weak transparency practices.

Almost 40 percent of the central banks in the MCD region – that publish their financial statements – have adopted IFRS as the accounting framework.\footnote{Modifications related primarily to the treatment of unrealized gains and losses.} Of the 19 central banks that publish their financial statements, seven (37 percent) apply IFRS as issued by the IASB and four banks (21 percent) adopted “standards that differ from IFRS as issued by the IASB to a certain degree”; these standards have been modified.\footnote{There was no information available for three countries (i.e., Djibouti, Somalia, and Sudan). In addition, IFRS is not permitted in five countries in the North Africa subregion, primarily the francophone countries.} The remaining central banks (eight) follow local accounting standards that tend to fall short of international standards. Specifically, these shortfalls relate to: (i) insufficient disclosures in the financial statements; (ii) the lack of fair value measurement for certain financial instruments and impairment of assets; and (iii) the use of discretionary accounting policies that may not reflect the true financial position of the central bank.

IFRS is permitted in the majority of MCD countries. Legal impediments are often cited in some countries as obstacles to adopt IFRS, however, according to the IASB, the application of IFRS is required or permitted in 24 countries (i.e., 75 percent) in the MCD region.\footnote{It is}
noteworthy that, while IFRS is required for all banks in the Gulf Cooperation Council (GCC) subregion, which accounts for 19 percent of countries in the region, none of the six central banks in the GCC applies this accounting framework.

Key observations in the subregions are:

- IFRS is permitted in the Caucasus and Central Asia (CCA) subregion. In contrast to the GCC, six out of eight central banks publish their full sets of financial statements, which are prepared based on IFRS or IFRS with modifications.

- Only one out of nine central banks in the North Africa subregion applies IFRS. Furthermore, while four central banks publish their full set of financial statements, the remaining five central banks either publish an abbreviated version, are significantly late in publishing, or do not publish at all; all of which compromises transparency.

**Most central banks publish their audit opinions.** Of the 20 central banks that publish their audit opinions, 16 had unmodified audit opinions. Of the 11 financial statements based on IFRS or IFRS with modifications, seven had unmodified (clean) audit opinions. The four modified audit opinions on IFRS financial statements related to legacy issues (two central banks) and improper valuation of certain assets (two central banks).

### III. Accountability

Key aspects of accountability include: (i) quality audits conducted by independent audit firms to ensure the credibility of financial reporting, and (ii) timely and accurate financial statements that support building confidence of public stakeholders in the central bank’s activities. In addition, a strong accountability mechanism should feature an effective oversight body such

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5 Among the 19 central banks that publish a set of financial statements, 18 include their audit opinion. Additionally, two central banks that only publish abbreviated financial statements based on their local accounting framework also included their audit opinion.

6 An unmodified audit opinion refers to when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

as an audit committee, with primary responsibility to oversee the efficacy of audit, reporting and control processes in a central bank.

The majority of the 20 MCD central banks that publish their audit opinions are audited by reputable international audit firms. The four large international firms (Deloitte, EY, KPMG and PwC) audit 80 percent of central banks, while second tier international firms (BDO, Mazars and Grant Thornton) audit 15 percent. International affiliation provides certain benefits that support audit quality, including access to a wide network of expertise and quality control procedures. About 60 percent of central bank audit reports stated use of International Standards on Auditing (ISA).

Audit completion at most central banks is timely. For financial information to be relevant, it must be made available promptly after the reporting date (i.e., within 3-4 months). In the MCD region, audit opinions are mostly finalized within 4 months after the financial year-end. This accounted for 75 percent of the banks in the region. The remaining central banks finalize their annual audits within six-to-twelve months. Late audit completion can often be a result of weak oversight of financial reporting processes, late appointment of the auditors, or capacity constraints.

Oversight of the work of external auditors has been a topical issue recently. Shortcomings in the quality of audits have emerged in recent months in various jurisdictions, including South Africa (KPMG) and the United Kingdom (KPMG). Suggestions on possible improvements have included strengthening the oversight of the audit profession. Box 1 below provides an indication on the evolution of independent audit oversight practices globally and a regional representation of audit regulatory bodies. Currently only four MCD countries have established independent audit oversight bodies.
**Box 1. Independent audit oversight/regulatory bodies around the world**

The last 20 years have been characterized by continuing advancement of independent audit oversight bodies around the world. These oversight bodies grew out of increased public demand for a more accountable and independent audit function, due to a shift in oversight perspective in the early 2000’s. At that time a number of high-profile accounting scandals raised some fundamental questions about the conduct of the audit profession, which had been operating largely in a self-regulated environment. While a number of countries have decided to create independent audit oversight bodies, there is still a need for more radical reform of the audit profession in many jurisdictions.

In 2016, the International Forum of Independent Audit Regulators (IFIAR) was established to serve the public interest, including investors, by enhancing audit oversight globally. It currently comprises independent audit regulators from 52 countries (see graph below).

**Independent Audit Regulators**

![Pie chart illustrating the distribution of independent audit regulators](chart-image)

Typical responsibilities of independent audit regulatory bodies include the following:

- registering auditing firms;
- establishing auditing quality control, ethics, independence, and other standards relating to audits;
- conducting inspections, investigations, and disciplinary proceedings of registered firms; and
- enforcing compliance with related laws and regulations.

Source: [https://www.ifiar.org/members/member-directory/](https://www.ifiar.org/members/member-directory/)
IV. Financial autonomy

The financial autonomy of a central bank helps sustain its credibility. The latter is safeguarded by the ability of the central bank to carry out its mandate without recourse to external financial assistance. For this purpose, the central bank should have sufficient financial buffers to absorb potential losses, and its financial position should be preserved by robust recapitalization and profit distribution arrangements. A major strain on central banks’ financial positions, and consequently their financial autonomy, can often be involvement in monetary financing or quasi-fiscal activities.

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Central Banks Quasi-Fiscal Activities

An IMF Working Paper - Central Bank Credit to the Government: What Can We Learn from International Practices? lays out key recommendations for the design of the institutional foundations underlying central bank credit to the government. As a first best, central banks should not finance government expenditure. The central bank may purchase government securities in the secondary market for monetary policy purposes, charging market interest rates on such credits and transferring bank profits to the budget. As a second best, financing to the government may be allowed on a temporary basis. In particular, central bank lending to the government is warranted to smooth out tax revenue fluctuations until either a tax reform permits a stable stream of revenues over time or markets are deep enough to smooth out revenue fluctuations. Financing other areas of the state, such as provincial governments and public enterprises, should not be allowed. The terms and conditions of short-term loans should be established by law.

The scope of quasi-fiscal activities undertaken by a central bank often depends on its relations with the government. When financial markets are underdeveloped, and central bank autonomy is low, the practice of extending credit to government is widely used. An IMF Working Paper – Quasi-Fiscal Operations of Public Financial Institutions provides examples of quasi-fiscal activities as follows:

- Subsidized lending; e.g., credit to the government and/or the financial sector at below-market rates,
- Rescue operations; e.g., infusion of capital to insolvent institution, purchase of securities issued by state-owned banks and SOEs,
- High reserve requirements with no interest charged; e.g., the central bank lends money to

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8 Where financial statements are not published, or the disclosures are not sufficient to provide for informed analysis, the information was supplemented by a review of annual reports and analysis available in IMF staff reports for the respective countries.
Over 50 percent of MCD central banks are involved in various forms of quasi-fiscal financing, with subsidized lending most often used. Among 12 banks involved in subsidized lending to the financial sector, six also provided lending to the government. The other forms of quasi-fiscal activities in the MCD region included: i) purchase of securities issued by state-owned banks and SOEs; ii) infusion of capital to insolvent institutions, and (iii) subsidies linked to exchange rates (see figure below). The effects of quasi-fiscal operations on the income statement are not always transparently disclosed in the financial statements. Moreover, four central banks are in need for recapitalization due to substantial involvement in quasi-fiscal operations. It should also be noted that a few central banks do not apply proper accounting policies for foreign currency revaluation and asset impairment, thereby not revealing their true financial position.

V. Conclusion

Financial reporting transparency practices in the region are mixed. While 95 percent of those central banks that publish financial statements are subject to independent audits by reputable audit firms, and audit completion is mostly done on a timely basis, there is scope to broaden the use of more transparent accounting based on IFRS. Quasi-fiscal activities are prevalent in the region and thus compromise the financial autonomy of certain banks in the region.

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9 Usually central banks are involved in more than one quasi-fiscal activity. No information was available for five central banks.