

**International Organization of Supreme Audit Institutions  
(INTOSAI)**

**The 25<sup>th</sup> INTOSAI Congress  
(XXV INCOSAI)**

**Theme I**

**(The Role of Supreme Audit Institutions in Auditing Central Banks and  
Government Activities during Financial and Economic Crises)**

# International Organization of Supreme Audit Institutions

## INTOSAI Congress XXV

Sharm El-Sheikh, Egypt | 27–31 October 2025

### Theme I: The Role of Supreme Audit Institutions in Auditing Central Banks and Government Activities during Financial and Economic Crises

#### Introduction

Supreme Audit Institutions (SAIs) serve a vital role in helping ensure that central banks and governments are prepared for and respond to financial and economic crises transparently and effectively. Financial and economic crises can have devastating effects on individuals, institutions, governments, and nations. These crises strain government budgets and can disproportionately affect vulnerable and marginalized groups, such as the poor.

Central banks play a vital role in addressing financial and economic crises by bolstering the resilience of financial systems and economies. These efforts are complemented by other government activities, including those administered by financial and regulatory entities, which help mitigate the impacts of these crises and promote financial, economic, and social stability.

The purpose of this paper is to provide foundational context on the role of SAIs in auditing central banks and government activities during financial and economic crises to foster discussion and priority-setting among members of the INTOSAI community. This paper is not intended to provide policy recommendations. Following an overview of financial and economic crises and the role of central banks and financial and regulatory entities, this paper uses surveys of the INTOSAI

community and external research to describe SAIs' varying roles and challenges they face globally. The paper concludes with a series of observations and discussion questions that the INTOSAI community can use to collectively develop a strategy to help ensure SAIs are prepared to fulfill their critical role during future financial and economic crises.

This paper was developed by the INTOSAI Working Group on Financial and Economic Stability with significant contributions by the Government Accountability Office (SAI USA, Theme I Chair), Accountability State Authority (SAI Egypt, Theme I Vice Chair), and General Court of Audit (SAI Saudi Arabia, Theme I General Rapporteur).

## Background

The roles of central banks and government financial and regulatory entities are complex and interconnected. It is important to understand these roles and how they can help mitigate and manage financial and economic crises before discussing the oversight role of SAIs.

### Central Banks and Government Financial and Regulatory Entities

Central banks are authorities that are responsible for activities that affect a country's supply of money and credit. In total, 164 central banks operate across 172 countries and regions, according to data from the Bank for International Settlements.<sup>1</sup> In general, each country has a separate central bank. For example, the central bank of the United States is the Federal Reserve System. However, countries that share a currency may be governed by one or more central banks with varying jurisdictions. For example, the eight countries that comprise the West African Economic and Monetary Union are governed by the Central Bank of West African States.<sup>2</sup> In comparison, the 27 members of the European Union are within the European System of Central Banks and are governed by national central banks and the European Central Bank to varying levels depending on their use of the euro or domestic currencies.

The role of central banks has evolved over time. Central banks were established in the 17th century in Europe as private entities to lend to and purchase debt from their governments and stabilize currencies. Because central banks held the deposits

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<sup>1</sup>Bank for International Settlements, *Regulatory Agencies and Supervisory Authorities*, <https://www.bis.org/regauth.htm> (accessed on January 15, 2025).

<sup>2</sup>In addition, eight countries that comprise the Organization of Eastern Caribbean States share a central bank (Eastern Caribbean Central Bank), and the six countries that comprise the Economic and Monetary Union of Central Africa share a central bank (Bank of Central African States).

of other banks, their role expanded to include banking services to these banks, including facilitating transactions and serving as a lender of last resort in times of crisis. Today, central banks play a more active role in regulating inflation, setting interest rates, and ensuring economic stability by overseeing monetary policy. Their interventions during financial downturns, such as adjusting liquidity levels or implementing stimulus measures, illustrate their broader responsibilities in modern economies.

Central banks use monetary policy and other tools to achieve three key goals:

- **Price stability** (or stability in the value of money), which is primarily addressed by targeting rates of inflation.
- **Economic stability**, which is primarily addressed by targeting rates of employment and economic growth.
- **Financial stability**, which is primarily addressed through regulations and oversight that prevent systemic risks and ensure the safety and soundness of financial institutions and payment systems.<sup>3</sup>

Monetary policy tools have traditionally included (1) open market operations, (2) discount rates, and (3) reserve requirements.

- Within open-market operations, central banks set targets for the interest rates at which banks lend money to one another. Central banks then buy and sell securities, such as government bonds, thereby affecting the supply of

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<sup>3</sup>Michael D. Bordo, Federal Reserve Bank of Cleveland, *A Brief History of Central Banks*,

<https://www.clevelandfed.org/publications/economic-commentary/2007/ec-20071201-a-brief-history-of-central-banks>  
(published Dec. 1, 2007).

reserves and credit in the banking system and causing interest rates and economic activity to shift accordingly.<sup>4</sup>

- Additionally, central banks can use administered rates (such as Interest on Reserve Balances in the United States) to influence short-term interest rates and can also directly adjust the interest rates at which they lend funds to banks to address short-term liquidity needs (known as the discount rate). Changes to these interest rates can cause other short-term interest rates to change, such as those for business loans or credit cards, since they affect the cost of borrowing for banks.
- Lastly, central banks may require that financial institutions hold a specific ratio of their deposits in reserves, or they may pay interest on reserves they hold for other banks. Such reserve tools can affect other interest rates and inflation.

Central banks may also undertake other activities that can affect their price, economic, and financial stability goals. For example, central banks may issue and regulate national currencies; promulgate rules and regulations that govern the activities and operations of financial institutions, such as requirements for the amount of capital banks must hold; enforce laws, rules, and regulations through supervisory activities, such as routine bank examinations;<sup>5</sup> and operate or regulate payment systems.

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<sup>4</sup>Laura J. Hopper. Federal Reserve Bank of St. Louis, *What Are Open Market Operations? Monetary Policy Tools, Explained*, <https://www.stlouisfed.org/open-vault/2019/august/open-market-operations-monetary-policy-tools-explained> (published Aug. 21, 2019).

<sup>5</sup>Responsibilities for banking regulation and supervision may be shared with or separately governed by one or more financial supervisors.

Central banks can use these monetary policy tools to mitigate factors that result in financial and economic crises. For example, when inflation is low or negative, central banks may purchase bonds through open market operations to stimulate economic activity. Alternatively, when inflation is high, central banks may increase administered rates to temper economic activity.

Functions that typically fall within the responsibilities of central banks may be shared or solely administered by other government finance and regulatory entities, such as ministries of finance; treasury departments; and banking, commodities, and securities regulators. Such functions might include debt management, liquidity and lending facilities, currency regulation, and banking regulation and supervision. Other governmental and non-governmental entities may also be involved that regulate aspects of the financial system, such as mortgage lending and securitization.

### Financial Crises and Accompanying Economic Crises

Financial and economic crises are distinct but interconnected. Financial crises are severe disruptions to the financial sector. Economic crises often result from financial crises and can include periods of recession, massive decreases in output and consumption, hyperinflation, and increased unemployment.<sup>6</sup>

Financial crises can be classified into four categories:

1. **Banking crises** occur when bank runs or bank failures undermine the public's confidence in the financial system.

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<sup>6</sup>While the COVID-19 pandemic caused many of the symptoms of an economic crisis, and central banks responded using tools at their disposal, the economic contraction was caused by a public health crisis rather than a financial crisis, and therefore it is not discussed here.

2. **Currency crises** involve a sharp devaluation in a country's currency.
3. **Debt crises** occur when a country is unable or unwilling to repay its debts.
4. **Sudden stop crises** are characterized by a sharp decrease in capital inflows to a country.<sup>7</sup>

Due to the interconnected nature of the financial system, categories of financial crises sometimes overlap, and one type of crisis may trigger another—exacerbating a resulting economic crisis. For example, in a “twin crisis,” a currency crisis and a banking crisis occur simultaneously, often reinforcing each other and leading to a more severe economic impact than either crisis alone. Or, for instance, a sudden stop crisis in Country A may be caused by a banking crisis in Country B, where Country A's creditors are located. Similarly, a debt crisis in a country may result in a loss of confidence in its currency and trigger a currency crisis. This is commonly observed in emerging market economies, which are more vulnerable to financial crises than developed economies because much of their domestic borrowing is not denominated in their domestic currency.

Financial crises vary significantly in scale. They can affect a single country, a region, or spread globally. For example, the economic impacts of Venezuela's 2017 debt crisis have been contained nationally, while the impacts of the 2007–2009 financial crisis had widespread global impacts. We discuss these and other examples of financial and economic crises in the next section of this paper.

Financial crises are often preceded by periods of rapid expansion in credit, known as credit booms, and inflated asset valuation, known as asset bubbles. When credit

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<sup>7</sup>Claessens, Stijn and M. Ayhan Kose, International Monetary Fund, *Financial Crises: Explanations, Types, and Implications* (Washington, D.C.: Jan. 30, 2013).

booms bust and asset bubbles burst, they may trigger a financial crisis. Financial crises may be precipitated by a range of events, such as bank runs, credit crunches, and asset fire sales. If they escalate from localized events in one economic sector to national or international levels, they can affect multiple sectors. As barriers between financial sectors within countries fall and the global economy becomes more interconnected, the risk of contagion between sectors and countries increases.

Government policies, whether actions or omissions, can increase the likelihood of financial crises if they are unpredictable, unclear, or poorly communicated to the public. Examples include the following:

- An expansionary monetary policy, where the central bank keeps interest rates very low, may encourage a credit boom.
- Excessive government deficit spending may create inflationary pressure.
- Government insurance programs may cause institutions to assume excessive risk.
- Governments may fail to properly regulate innovative but risky financial products.
- Government failure to impose sufficient capital requirements may lower banks' ability to absorb losses and increase the likelihood of bank runs.

Financial crises are difficult to predict or prevent because there is no agreed-upon measure to determine when an asset or credit expansion is in imminent danger of causing a crisis. Because financial systems are complex and interconnected, indicators of an impending crisis may be difficult to interpret clearly. However, swift actions by central banks to contain a financial crisis can reduce its impact on the economy and minimize its negative consequences.

## Examples of Recent Financial and Economic Instability

Examples of recent financial and economic instability can demonstrate how the causes, economic impacts, and scale of these events have varied.

### **Sri Lankan Economic Crisis (Sri Lanka, 2022)**

A series of bombings in 2019 and travel restrictions during the COVID-19 pandemic were particularly damaging to Sri Lanka's economy, which is heavily dependent on tourism. In addition, the government did not pursue exports, significantly cut taxes, spent liberally on infrastructure improvements, and borrowed heavily to finance spending. Moreover, the Central Bank of Sri Lanka increased the money supply to allow the government to continue spending. Proposals to reform the central bank by removing it from political pressure and prohibiting the purchase of government securities were not implemented. The result was high inflation and a large trade deficit.

As part of an initiative to promote organic farming, as well as to combat the trade deficit, the government banned the import of chemical fertilizer in 2021, which resulted in large drops in tea and rice production and consequently required the import of more food. By March 2022, the country's foreign reserves were completely exhausted, which left Sri Lanka unable to purchase essential items from abroad, such as food or fuel, or service its foreign debt. Sri Lanka defaulting on some of its foreign debt, and food insecurity and breakdowns in power and transportation infrastructure led to civil unrest.

In March 2023, the International Monetary fund provided interim funding to Sri Lanka, conditioned on economic reforms such as increased taxes, the privatization or restructuring of state-owned companies, and a tightening of monetary policy. As of 2024, Sri Lanka is showing signs of a fragile recovery.

### **Failure of Saigon Commercial Bank (Vietnam, 2022)**

Financial crises can have many proximate causes. For instance, a real estate developer illegally controlled Saigon Commercial Bank, Vietnam's fifth largest lender, for over a decade and embezzled about \$12.5 billion from it through thousands of fraudulent loans to shell companies she controlled and used to bribe government officials. In October 2022, the developer was arrested and there was a run on the bank. Vietnam's central bank, the State Bank of Vietnam, took control of the bank and provided special loans to settle deposits totaling about \$24.5 billion, or about 6 percent of the country's gross domestic product (GDP). The State Bank of Vietnam's actions likely helped as the financial crisis did not spread and result in an economic crisis.

### **Financial Crisis of 2007–2009 (Global, 2008)**

In the early 2000s, U.S. lenders began to relax their underwriting standards and made many "subprime" mortgage loans to consumers, which carry a greater risk of default. These loans were in turn securitized into mortgage-backed securities. As delinquencies on subprime mortgages began to rise, financial institutions with large investments in the mortgage-backed securities began to fail due to a lack of liquidity. The Federal Reserve System provided liquidity loans to financial institutions, but these actions were insufficient to contain the crisis. Stock markets around the world fell and governments globally spent trillions of dollars and central

banks loaned large sums to support troubled financial institutions. In response, the Federal Reserve System and the U.S. Department of Treasury implemented various measures, including capital injections through the Troubled Asset Relief Program, to stabilize the financial system and prevent a complete collapse of the economy. While the scale of the economic downturn varied from country to country, it is generally viewed as the most severe global economic crisis since the Great Depression in the 1930s. For example, median household wealth in the United States fell by 35 percent from 2005 to 2011.

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## Role of SAIs in Auditing Central Banks and Government Activities during Financial and Economic Crises

As central banks implement their tools to stabilize markets, inject liquidity, or control inflationary pressures, SAIs are positioned to evaluate whether these actions align with legal mandates, policy objectives, and sound governance principles. This is especially relevant during crises when extraordinary measures may be taken quickly and with limited public scrutiny. By auditing the design, implementation, and outcomes of monetary interventions, SAIs help ensure that central bank responses are both effective and accountable. This, in turn, contributes to public trust and institutional credibility during periods of systemic stress.

Where SAIs have legal authority to audit their central banks, they can play a role in helping prevent and mitigate financial crises in multiple ways.

- **Routine audits** of the central bank can ensure that internal controls, laws, and other requirements are being followed and can help detect warning signs of future crises. SAIs are well positioned to provide general oversight and recommendations for improvements to internal controls and legislation that can help avoid further damage from crises.
- **Real-time audits** during a crisis can provide useful information to policymakers, government officials, and other stakeholders on the status and effectiveness of programs or policies designed to address a crisis, such as new liquidity programs.
- **Retrospective audits** of crises can provide useful, objective information for policymakers about actions taken by the central bank and other actors that

either contributed to the crisis or mitigated it. This can provide a blueprint for avoiding or responding to future crises.

### SAIs and Other Entities Share Responsibilities for Auditing Central Banks

Internal and external auditors may audit central banks. Internal audits are conducted by central banks staff that are independent from the bank's operations. External audits are conducted by several types of entities, including SAIs, non-SAI governmental auditors, and private sector auditors. While internal and external audits are both important, external audits can provide additional accountability and transparency and thereby promote the credibility of financial and operational performance.

Nearly all central banks have a legal requirement for external financial audits, according to a 2018 study by the International Monetary Fund (IMF).<sup>8</sup> According to the study, 23 central banks (14 percent) are governed by laws that mandate the SAI as the external auditor. However, most central banks surveyed (119, or 70 percent) are governed by laws mandating an independent, private external auditor.<sup>9</sup> For 23 of these central banks (14 percent), the SAI was responsible for appointing an external auditor. In most cases, the central bank's board or another governmental entity appointed the external auditor.

The IMF also monitors central banks in countries where it lends and regularly assesses the adequacy of these central banks to ensure they can manage,

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<sup>8</sup>Atilla Arda, Martin Gororo, Joanna Grochalska, and Mowele Mohlala, *External Audit Arrangements at Central Banks* (International Monetary Fund, September 2018).

<sup>9</sup>For the remaining 16 percent of central banks, their governing laws either did not have information on external audit requirements or entrusted them to an audit board or statutory auditor without a clear indication of their role.

safeguard, and report on the funds, and maintain financial stability. Such reviews include six components, including the central banks' external audit mechanism. However, the aspects of external audits that are evaluated are unclear because the results of IMF's Safeguards Assessments are not publicly available.<sup>10</sup>

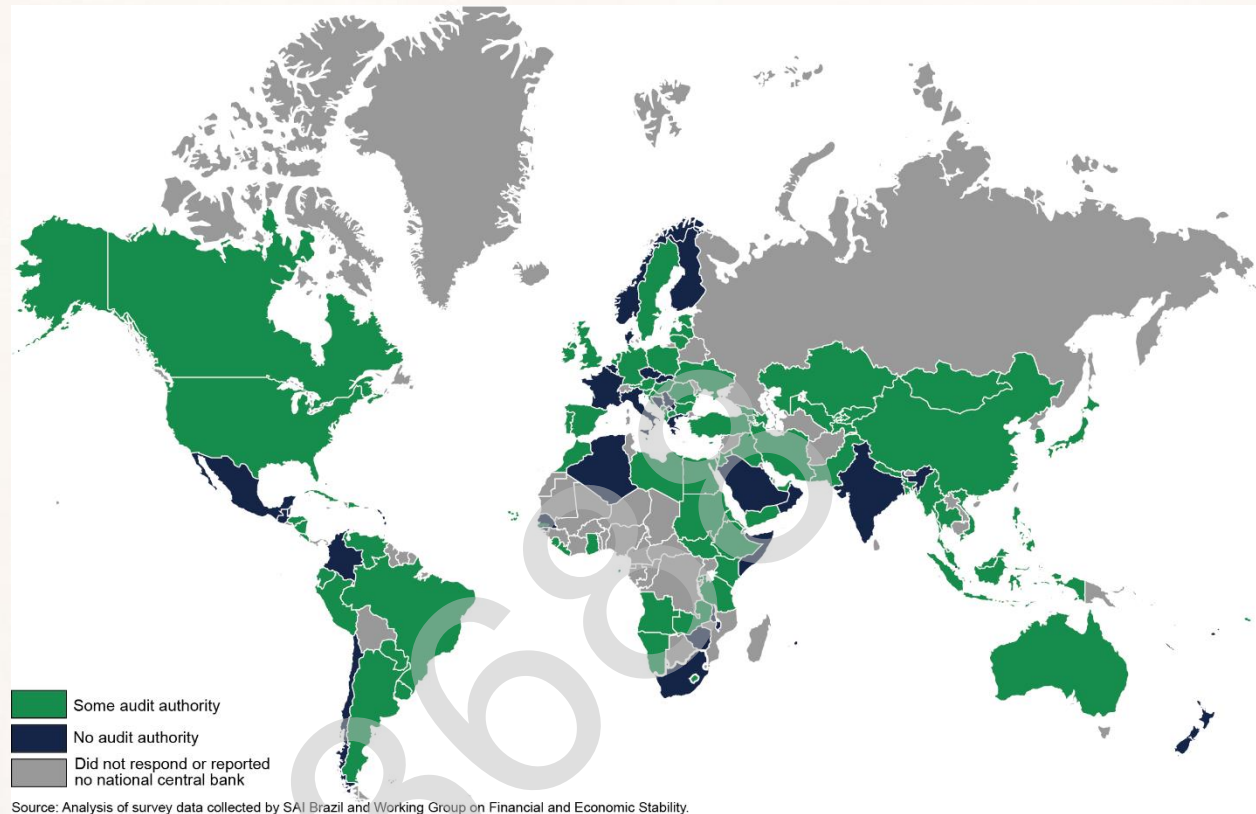
### Most SAIs Reported Having Some Authority to Audit Their Central Banks, but the Scope of Authority Varied

National laws and ordinances provide SAIs with additional authority to conduct performance (also referred to as value-for-money) and compliance audits. According to our analysis of survey data collected from SAI Brazil in 2022 and the working group in 2024, 91 SAIs (about 71 percent of respondents with a central bank) reported having some legal authority to audit their central bank.<sup>11</sup> Conversely, 38 SAIs (about 29 percent of respondents with a central bank) indicated they lacked authority to audit their central bank (see fig. 1).

<sup>10</sup>In 2024, the IMF conducted Safeguards Assessments for the central banks of Ecuador, The Gambia, Honduras, Jordan, Lebanon, Liberia, Madagascar, Malawi, Maldives, Paraguay, Rwanda, Sierra Leone, and Somalia.

<sup>11</sup>The INTOSAI Working Group on Financial and Economic Stability conducted a survey in 2024 of all INTOSAI members to support this paper. We received 62 responses (31 percent response rate). The results of this survey are presented throughout this paper. For the number of SAIs with a legal mandate to audit their central bank, we combined these results with a survey conducted by SAI Brazil for the 24th INCOSAI. In total, these surveys provided information on the central bank audit authority of 129 SAIs. We did not independently verify the accuracy of SAIs' responses by reviewing laws and regulations.

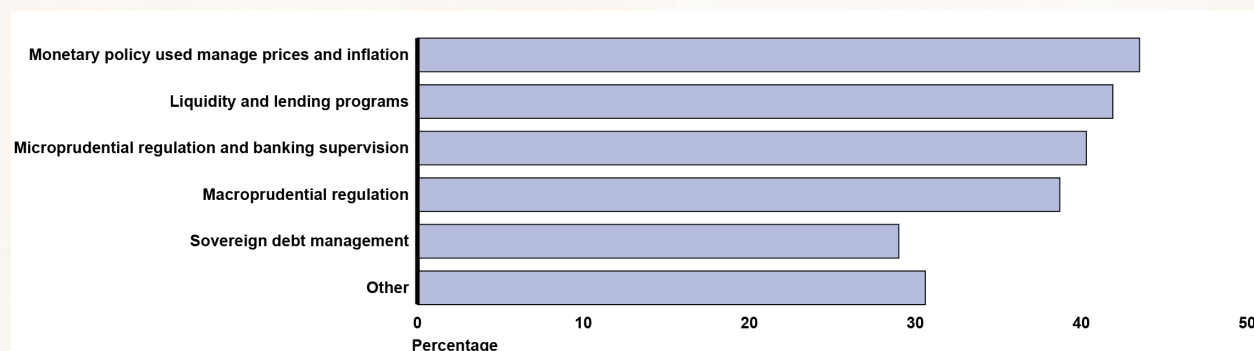
**Figure 1: Supreme Audit Institutions' (SAIs) Level of Legal Authority to Audit Their Country's Central Bank**



Note: SAIs in grey did not respond to the surveys or do not have a national central bank to audit. For example, some smaller SAIs, such as Tuvalu, responded that they did not have a central bank. Similarly, countries in West and Central Africa are part of monetary unions that share a regional central bank. We did not independently verify the accuracy of SAIs' responses by reviewing laws and regulations.

According to the survey responses, audit mandates covered a variety of central bank functions with SAIs most frequently reporting that their mandates covered monetary policy, liquidity and lending programs, and microprudential regulation and supervision (see fig. 2).

**Figure 2: Percentage of Central Bank Functions That Supreme Audit Institutions Reported Were Included in Their Audit Mandates**



Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

Note: Respondents that indicated “other” in their response most frequently mentioned that their audit authority covered a budget execution, capital investments, currency and exchange systems, payment systems, and illicit financial activity.

Even among SAIs with legal authority to audit their central bank, the scope of their mandates vary. Examples include the following:

- The Bundesrechnungshof (SAI Germany) has a relatively broad mandate to audit its central bank, Deutsche Bundesbank. SAI Germany’s mandate requires it to conduct compliance audits to ensure adherence to laws and regulation, financial audits to ensure sound financial management, and performance audits to ensure resources are used efficiently and effectively.<sup>12</sup>
- The Office of the Auditor General of Canada (SAI Canada) has a mandate to audit its central bank, the Bank of Canada, but it can only audit the bank in its capacity as the fiscal agent for the Canadian government, such as its

<sup>12</sup>SAI Germany noted that its audits take into account the of Deutsche Bundesbank’s independence and that certain restrictions exist because the central bank is integrated in the European System of Central Banks.

management of the government's treasury, foreign reserves, and debt. SAI Canada may not, for example, examine the bank's liquidity and lending programs.

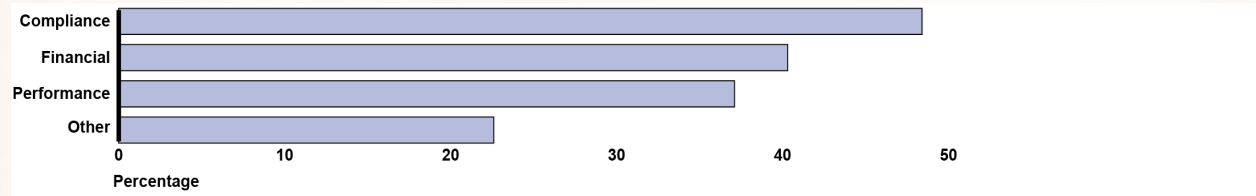
- The Auditor General of Pakistan (SAI Pakistan) has a mandate to audit the State Bank of Pakistan's accounts but is otherwise restricted from auditing its other functions. For example, SAI Pakistan does not have the authority to audit the implementation of liquidity programs or microprudential regulations.

### SAIs Most Frequently Reported Conducting Audits of Central Banks' Financial and Microprudential Regulation and Supervisory Activities

SAIs can fulfill their central bank oversight mandates through multiple types of audits. Financial audits provide reasonable assurance that central banks are appropriately managing and reporting their finances. Compliance audits promote accountability by assessing whether central bank operations adhere to laws, regulations, and relevant standards. Performance audits help evaluate the effectiveness of central bank programs, such as those designed to address financial crises.

SAIs that responded to the working group's 2024 survey indicated that they conducted audits across multiple disciplines but most frequently conducted compliance and financial audits. Among respondents with legal mandates to audit their central banks, 48 percent of SAIs conducted compliance audits, at least 40 percent conducted financial audits, and 37 percent conducted performance audits (see fig. 3).

**Figure 3: Percentage of Supreme Audit Institutions with Central Bank Audit Authority that Reported Conducting Various Types of Audits**

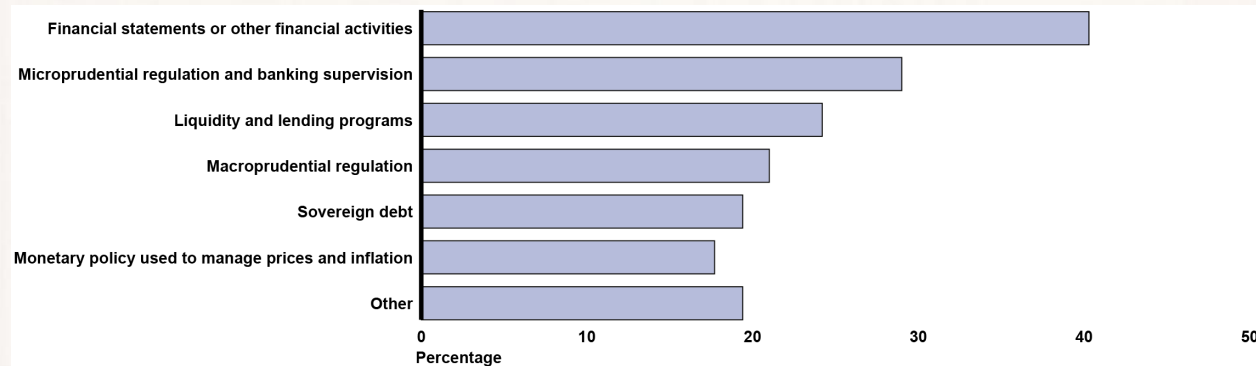


Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

Note: Respondents that indicated “other” in their response most frequently mentioned that they audited budget execution, which may be similar to a financial audit.

SAIs that reported having central bank audit authority examined multiple aspects of central bank operations during financial and economic crises in the past 20 years. SAIs most often focused on (1) financial statements or other financial activities, (2) microprudential regulation and banking supervision, and (3) liquidity and lending programs (see fig. 4).

**Figure 4: Percentage of Supreme Audit Institutions That Reported Auditing Central Bank Functions During Financial and Economic Crises in the Past 20 Years**



Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

SAIs that responded to the working group's 2024 survey provided examples of central bank audits during financial and economic crises in the past 20 years that reflect a wide range of audit work. Examples include the following:

- **Audits of financial statements.** Fourteen SAIs mentioned that they conduct financial statement audits of their central banks. A few SAIs reported that the scope of their financial statement audits also included reviews of central banks' management of operations and internal controls.
- **Audits of supervisory functions.** Two SAIs mentioned auditing central banks' supervisory functions. For example, one SAI's audit found that banking supervision was not effective because the central bank had challenges in identifying problems and taking appropriate actions.
- **Audits of policies and actions addressing crises.** Twelve SAIs mentioned auditing central banks' monetary policy and actions taken to address crises. Based on the examples provided by SAIs, common central bank actions that SAIs audited include bank bailouts and managing foreign currency reserves and public debt. Examples of findings and results included improper central bank supervision of bailouts leading to banks' misuse of bailout funds; risk management strategies for managing foreign currency reserves being insufficient; and recommendations on improving debt management leading to major policy reforms.<sup>13</sup>

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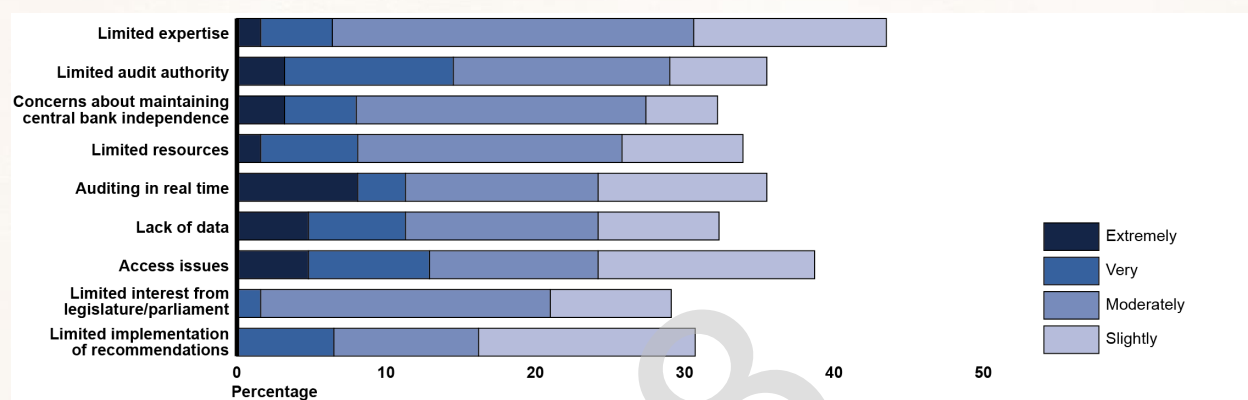
<sup>13</sup>Additionally, one SAI mentioned that instead of directly auditing its central bank, its audits of financial institutions include a focus on the central bank's actions to address crises. Another SAI mentioned that although it had not audited its central bank, it conducted a joint audit with its central bank on the public financing process for resolving a bank failure.

SAIs can also audit central banks to evaluate their preparedness for crises. For example, SAIs may review a central bank's supervisory internal controls and processes to help ensure they minimize risks in the banking sector. SAIs may also evaluate central bank response plans or whether human capital challenges could hinder timely and effective responses. However, over half of the SAIs that responded to the working group's 2024 survey reported they have not audited their central bank's preparedness to take appropriate countermeasures in the event of a financial or economic crisis.

### Several Challenges Have Limited SAIs' Oversight of Their Central Banks During Crises

SAIs that responded to the working group's 2024 survey reported a number of challenges in conducting central bank audits during financial and economic crises in the past 20 years. SAIs most often mentioned (1) limited expertise, (2) limited audit authority, and (3) concerns about maintaining central bank independence (see fig. 5). They reported that these challenges affected their ability to effectively audit their central banks during times of crises.

**Figure 5: Percentage of Supreme Audit Institutions That Reported Various Challenges in Auditing Central Banks During Financial and Economic Crises in the Past 20 Years**



Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

Note: Categories are listed in descending order based on the sum of the percentage of respondents that said it was extremely, very, or moderately challenging. Percentages do not sum to 100 because we excluded responses for “Not at all challenging” and skipped responses.

SAIs provided the following examples of how certain challenges have negatively affected their ability to effectively audit their central banks during financial and economic crises:

- Access issues.** Access to data and information affected the ability of SAIs to conduct more detailed audits of their central banks’ functioning, including policy implementation. A lack of available data prevented some SAIs from ensuring the completeness and accuracy of the information provided by central banks, which increased the risk of drawing incorrect conclusions. For example, one SAI reported that its central bank tends to consider documents

relevant to audits to be confidential. As a result, SAI auditors have experienced delays or incomplete access to requested documents.

- **Limited audit authority.** Several SAIs noted that limited audit authority affected their ability to audit central banks during financial and economic crises. For example, one SAI reported that it lacks legal authority to audit activities of its central bank that are significant to financial and economic crises, including monetary policy, liquidity and lending programs, macroprudential regulation, and sovereign debt management.
- **Limited resources.** Resource limitations can result in audits that are less impactful or timely. A few SAIs noted that limited human and budgetary resources have impacted their ability to audit central banks. For example, one SAI reported that, while it has consistently performed financial statements audits and limited compliance audits on its central bank, it has not had the resources to perform more impactful real-time or performance audits.
- **Limited expertise.** Central banks often engage in sophisticated financial transactions, such as derivatives, foreign exchange swaps, and bond repurchases, which require specialized knowledge to audit properly. A few SAIs reported that limited expertise among their staff presented challenges to auditing their central banks. For example, one SAI reported that its staff faced difficulty in understanding its central bank's use of financial instruments during financial crises, which added time to their audit.

## Central Bank Functions May Be Shared or Solely Administered by Government Financial and Regulatory Entities That Warrant Enhanced Oversight During Crises

Although central banks fulfill a government's role in using monetary policy to influence price and economic stability, other functions that affect financial stability may be shared or solely administered by separate government finance and regulatory entities. National efforts to address financial and economic crises are typically shared among these entities, which include ministries of finance; departments of treasury; and banking, commodities, and securities regulators. Because their activities are often complex and interlinked, the importance of proper oversight across these entities is magnified during financial and economic crises.

For example, authority for microprudential regulation and supervision of the banking sector is shared in many countries between central banks and separate regulatory agencies. In such cases, responsibilities may be delineated based on the type of regulation, bank charter, or other factors. For instance, in the U.S., the Federal Reserve System and three separate federal regulators supervise depository institutions with responsibilities delineated based on type (bank or credit union), size, and charter. Regulation and supervision of mortgage lending and consumer protections may be separately regulated by additional entities.

Similarly, authority for debt management and liquidity and lending facilities may be shared between central banks and ministries of finance or treasury departments. For example, the U.K. Debt Management Office within HM Treasury is responsible for issuing government securities, managing the government's cash flow through market operations, and operating a lending facility for local authorities. These functions may be conducted by central banks in other countries. For example, they

were executed by the Bank of England until the creation of the Debt Management Office in 1998.

Securities and commodities markets, such as those where stocks and derivatives contracts are exchanged, as well as markets for digital assets, such as cryptocurrencies, can be sources of financial and economic crises. In some countries, the regulation and supervision of these financial products and markets falls within the scope of securities and commodities regulators that are separate from central banks.

Gaps in legal mandates to audit government finance and regulatory entities could hinder SAIs' ability to fully oversee the complex and interconnected activities governments undertake to prevent and directly respond to financial and economic crises. SAIs that responded to our 2024 survey indicated that they have authority to audit these other government entities, but it was more limited for banking regulators. Specifically, 100 percent of the 58 SAIs with departments of treasury, ministries of finance, or debt management offices that responded to the working group's 2024 survey reported having a legal mandate to audit these entities. In comparison, 35 of the 45 SAIs that had separate banking regulators (about 78 percent) reported having a legal mandate to audit them.

## Other Government Activities Also Warrant Enhanced Oversight During Crises

In addition to auditing central banks and government finance and regulatory entities, SAIs can help ensure that other government activities to address the impacts of financial and economic crises are accountable and achieve national recovery goals. Governments undertake numerous efforts to recover from and prevent future crises, including programs designed to assist vulnerable individuals and businesses. This box highlights social protection and women's economic empowerment programs designed to prevent, mitigate, and facilitate recovery from financial and economic crises by providing essential benefits and promoting economic inclusion to those most at risk.<sup>14</sup>

SAI oversight helps to ensure non-financial government programs effectively achieve their objectives and desired outcomes and detect related instances of fraud and misinformation, which can increase during financial and economic crises. Forty-three SAIs (69 percent) that responded to the working group's 2024 survey provided examples of recent audits of social welfare programs that focused on mitigating negative impacts of crises on specific populations, including women, children, and the elderly. SAIs most frequently reported auditing programs related to entrepreneurship; social welfare, such as social security funds; and healthcare systems, such as healthcare system capacity. Other examples of programs audited include vocational training, small business loans, and housing assistance.

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<sup>14</sup>Social protection refers to benefits provided to individuals based on risks faced across their lifecycle, such as unemployment, disability, or maternity, as well as to those facing general poverty and social exclusion, according to the United Nation's International Labor Organization. Social protection programs can be financed through contributions from wages or general taxation, and include the following nine branches: health protection, sickness benefits, unemployment benefits, old-age pension, employment injury benefits, family and child benefits, maternity benefits, disability benefits, and survivors' benefits. Governments perform other critical activities during financial and economic crises that are not included in this discussion, such as small business lending and housing assistance.

SAIs can have the greatest impact in these areas when they design their audits to assess the extent to which their governments have developed appropriate programs and controls, implemented them with transparency and accountability, and achieved results. For example:

- **Brazil:** Tribunal de Contas da União (SAI Brazil) audited an emergency aid program implemented during the COVID-19 pandemic and found that 620,299 people received the benefit improperly, resulting in potential losses of R\$ 427 million per month. SAI Brazil made recommendations to improve controls, regularly verify beneficiaries' eligibility, and increase transparency to ensure the aid reached its intended audience efficiently and fairly.
- **Lithuania:** Valstybės kontrolė (SAI Lithuania) audited a program to increase employment during the pandemic and concluded that job-retention measures should have been more targeted. In particular, the audited program did not assess information, such as employee income and number of jobs retained by employers who received subsidies through the program.
- **Pakistan:** Office of the Auditor-General of Pakistan (SAI Pakistan) conducted a compliance audit of an income support program directed at protecting the vulnerable during the pandemic. The audit found that the benefits were not disbursed efficiently and were fraudulently withdrawn. The audit resulted in improved identification of beneficiaries and data quality.

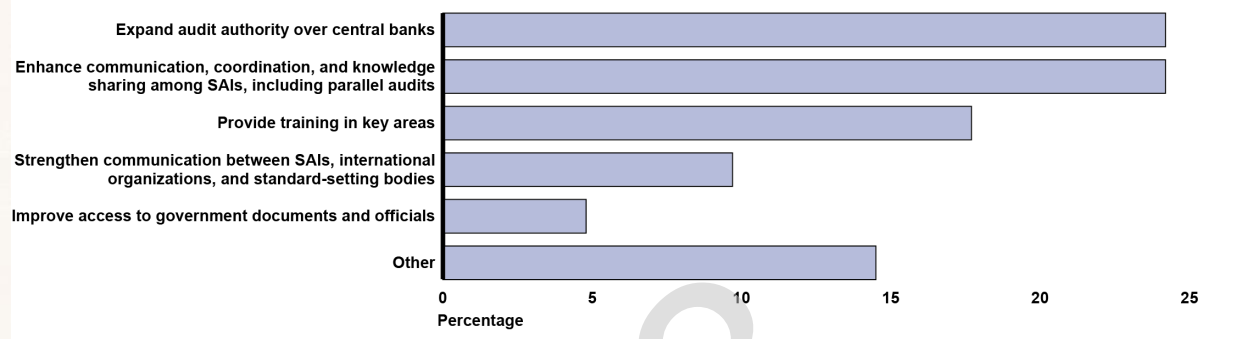
## Options to Strengthen the Role of SAIs in Auditing Central Banks and Government Activities During Future Crises

### SAIs Identified Several Priorities, Including Enhanced Knowledge Sharing, Training, Audit Authority, and Communication

SAIs will continue to serve a critical oversight role during financial and economic crises to help ensure that their governments are prepared for such crises and respond transparently and effectively. However, the role of SAIs may be limited by a number of factors we previously presented, including limited audit authority, resources, and expertise. Ensuring that SAIs are prepared to fulfill their significant role in advance of future crises requires addressing limitations and challenges that exists today.

SAIs that responded to the working group's 2024 survey provided several options for addressing the limitations and challenges they identified. SAIs most frequently cited the need for expanded audit authority, where appropriate, over central banks and enhanced communication, coordination, and knowledge sharing among SAIs, including parallel audits. SAIs also mentioned training, strengthened communication between SAIs and external stakeholders, and improved access to government documents and officials as key steps to enhancing the oversight role of SAIs during crises (see fig. 6).

**Figure 6: Percentage of Survey Respondents That Mentioned Key Actions to Enhancing the Role of Supreme Audit Institutions in Auditing Central Banks During Crises**

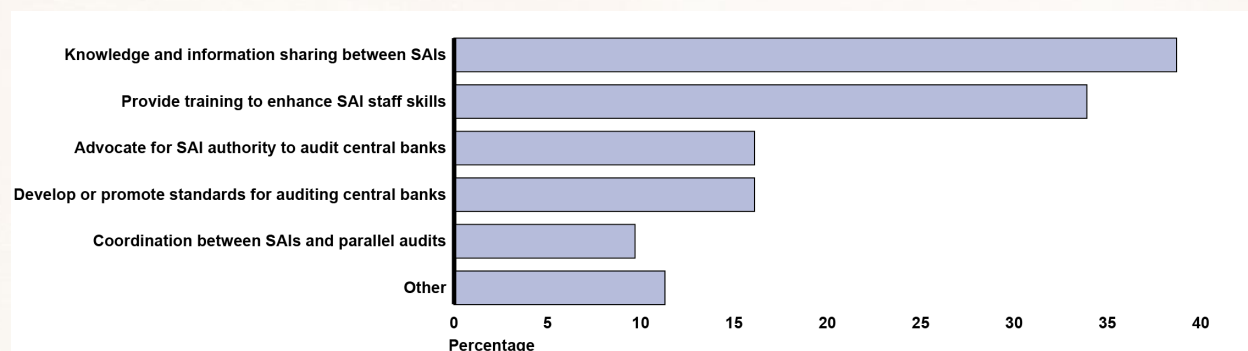


Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

SAIs discussed which options the INTOSAI community should prioritize to help enhance the role of SAIs in auditing central banks. These options were: (1) knowledge and information sharing between SAIs, (2) training to enhance relevant skills, (3) advocating for SAI audit authority where appropriate, (4) developing or promoting standards for auditing central banks, and (5) coordination between SAIs and parallel audits (see fig. 7).<sup>15</sup>

<sup>15</sup>SAIs provided other suggestions for developing the capabilities and capacity to audit governments during crises that are addressed in these observations, including leveraging external stakeholders to gain subject-matter expertise, focusing audit activities on program performance and recommendation follow-up, enhancing data analysis capabilities, and prioritizing resources towards programs with greater risks.

**Figure 7: Percentage of SAIs That Mentioned Priorities to Help Enhance the Role of Supreme Audit Institutions in Auditing Central Banks**



Source: Analysis of survey data collected by the Working Group on Financial and Economic Stability.

### Audit Authority Must Be Legislated, and Safeguards Can Help Preserve Central Bank Independence

Although most of the priorities survey respondents discussed are within the scope of the INTOSAI community to address, the legal authority of SAIs to audit central banks and government financial and regulatory entities must be provided by relevant legislative bodies. Nonetheless, gaps in oversight of any government activity can limit transparency and accountability and increase risk of fraud, waste, abuse, and mismanagement. SAIs that have identified limitations to their audit mandates resulting in oversight gaps can use this paper to help educate their relevant legislative bodies on the benefits, costs, and tradeoffs of expanding their audit authority.

Any decisions by legislative bodies to expand the authority of SAIs to audit central banks must be balanced with the need to protect the independence of central banks. The credibility of central banks is rooted in their independence to establish sound monetary policy based on the best available information at the time. Central

bank independence supports price stability and economic growth.<sup>16</sup> Because central bank independence is so critical to economic stability, legislative bodies and SAIs must take necessary steps to avoid any meaningful chance that SAI audits could undermine sound monetary policy.

Strong safeguards are needed to prevent political and external pressures on SAIs' audits and preserve central bank independence. For example, SAIs' audits should be clearly defined and, to the greatest extent possible, remain neutral on central banks' monetary policy decisions. In addition, audits related to monetary policy decisions should generally be retrospective and executed after a sufficient amount of time has passed to avoid possible interference in setting policy. Among other options, some SAIs have developed memorandums of understanding with their central bank to clearly delineate audit and review procedures, including which activities are appropriate to include within the audit scope.<sup>17</sup>

### Concluding Observations and Questions

The world is not immune to future financial and economic crises. Swift and targeted actions by central banks and other financial and regulatory entities can help prevent and mitigate such crises. SAIs are important mechanisms to help ensure such actions are transparent, accountable, and help achieve their intended results. While limitations and challenges can hinder the capacity of some SAIs to fulfill this role, the INTOSAI community can begin taking steps to enhance their knowledge, skills,

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<sup>16</sup>Masciandaro, Donato and Magurno, Jacopo and Tarsia, Romano, Central Bank Independence: Metrics and Empirics (December 24, 2020). BAFFI CAREFIN Centre Research Paper No. 2021-151, Available at SSRN: <https://ssrn.com/abstract=3759586> or <http://dx.doi.org/10.2139/ssrn.3759586>.

<sup>17</sup>For example, SAI U.K. and the Bank of England have developed a memoranda of understanding. See <https://www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/national-audit-office-and-the-boe.pdf>.

and abilities. In doing so, the INTOSAI community will be better prepared to address national challenges and further international goals.<sup>18</sup>

The following is a series of concluding observations and discussion questions to be contemplated and discussed during the 25th INTOSAI Congress. The goal of these questions is to promote further discussion and help the INTOSAI community identify priorities and actionable steps to enhance SAIs' capacity to audit central banks and government financial and regulatory entities during crises.

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<sup>18</sup>For example, actions to address financial and economic stability can help support the United Nations Sustainable Development Goals, such as target 8.10 (strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all) and target 17.13 (enhance global macroeconomic stability, including through policy coordination and policy coherence).

**Observation 1: Knowledge sharing activities are a critical component to help enhance the role of SAIs.**

1. What types of knowledge does your SAI need that would most greatly prepare it to fulfill its role during crises?
2. What knowledge sharing mechanisms has your SAI found to be most effective, and which should the INTOSAI community target in the coming years?

**Observation 2: Limitations in expertise require targeted trainings to develop auditors' knowledge, skills, and abilities.**

3. What types of skills and abilities would need to be bolstered to strengthen your SAI's ability to fulfill its role during crises?
4. How can the INTOSAI community and external organizations help your SAI develop these skills, such as the development of a shared curriculum or training opportunities?

**Observation 3: Audit authority is unequal, but expanding it requires external support and safeguards.**

5. What support do SAIs need when changes to their audit authority occur within their national contexts?
6. What new processes and safeguards should SAIs consider to assure their independence and the independence of central banks when their mandates expand?

**Observation 4: Guidance or standards may help some SAIs with limited capacity or expertise take a consistent approach.**

7. What types of guidance or standards would SAIs find most useful and practical for helping them audit central banks and government financial and regulatory entities during crises?
8. What topics should be included in any such guidance or standards?

**Observation 5: Greater collaboration is needed among SAIs, including parallel auditing where appropriate.**

9. What type of collaboration would SAIs find most useful in preparing them to conduct audits of central banks and government financial and regulatory entities during crises?
10. How would parallel audits benefit SAIs individually or collectively, and in what areas might future parallel audits be conducted to monitor or evaluate responses to financial and economic crises by central banks and government financial and regulatory entities?