



# ZIMBABWE

## TECHNICAL ASSISTANCE REPORT—UNDERTAKING SUPERVISORY EXAMINATIONS REMOTELY DUE TO COVID-19 OPERATIONAL RESTRICTIONS

February 2022

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# TECHNICAL ASSISTANCE REPORT

## ZIMBABWE

### Undertaking Supervisory Examinations Remotely due to COVID-19 Operational Restrictions

JULY 2021

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**GLOSSARY**

AFS	Regional Technical Assistance Center for Southern Africa- AFRITAC South
BOG	Bank of Ghana
BOT	Bank of Thailand
DNB	De Nederlandsche Bank
IT	Information technology
RBZ	Reserve Bank of Zimbabwe

**PREFACE**

At the request of the Reserve Bank of Zimbabwe (RBZ), the Regional Technical Assistance Center for Southern Africa (AFS) conducted a remote mission from April 20 to 30, 2021, to provide guidance to the authorities in establishing a process for undertaking supervisory examinations remotely due to COVID-19 operational restrictions.

The mission met with Philip T. Madamombe, Director, Bank Supervision, Audrey Hove, Deputy Director, Bank Supervision and staff of the Bank Supervision Department. The mission wishes to thank the RBZ for their cooperation during the mission and flexibility in undertaking this work remotely.

## EXECUTIVE SUMMARY

**The RBZ is in the process of recommencing on-site examinations, but due to COVID-19 operational restrictions, these will need to be undertaken remotely.** The RBZ has developed a draft remote examination framework document to guide this work and requested AFS assistance to review the framework, and also provide information on how other supervisors are undertaking examinations remotely.

**The mission provided training on international practice of remote examinations, which was presented by supervisors from the Bank of Ghana (BOG), Bank of Thailand (BOT) and the De Nederlandsche Bank (DNB) and reviewed the draft remote examination framework document.** The training covered adjustments to examination framework and operational issues and key points of consideration when undertaking examinations remotely. The mission also reviewed the RBZ consolidated examination manual, to provide feedback to the RBZ on the feasibility of undertaking supervisory examinations remotely, as described in the manual and provide points for consideration for undertaking such examination remotely.

**Key points for the RBZ to consider when setting up remote examinations, from international experience, mostly relate to communication, scope of examinations and it is important to establish reliable and stable communication channels and recognizing the limits to assessment.** The mission recommends that the RBZ structure its remote examinations, taking into account effective functioning of information technology (IT) services, realistic scope of examinations, extended time frame needed to undertake assessment, effective information sharing and understanding around realistic ability to effectively assess components of inherent risk as well as risk management and control.

**Table 1. Key Recommendations**

<b>Recommendations and Authority Responsible for Implementation</b>	<b>Priority</b>	<b>Timeframe<sup>1</sup></b>
Establish and structure remote examinations in accordance with the key points for consideration presented to the RBZ in the training sessions, as outlined in this report.	High	Near term
Revise the draft remote examination framework document in consideration of the feedback provided by the mission – Appendix I.	High	Near term

<sup>1</sup>Near term: < 12 months; Medium term: 12 to 24 months.



## I. INTRODUCTION

1. **The RBZ is in the process of recommencing on-site examinations, but due to COVID-19 operational restrictions, these will need to be undertaken remotely.** The RBZ has developed a draft remote examination framework document to guide this work and requested AFS assistance to review the framework, and also provide information on how other supervisors are undertaking examinations remotely. The mission reviewed the draft framework document and suggested a number of enhancements; and provided practical information on undertaking on-site examinations remotely<sup>1</sup>.

## II. KEY POINTS FOR CONSIDERATION IN UNDERTAKING REMOTE EXAMINATIONS

2. **When setting up and structuring remote examinations, it is important to ensure that IT services will enable effective communication with all counterparts, particularly when examiners are also working remotely from their institution.** The scope and time frame of the examinations need to be carefully considered in terms of what assessments are feasible, and the length of time it will take, noting that remote examinations are proving to be more time consuming than in person engagements. In addition, the provision of sufficient pre-examination information and the thorough assessment thereof (always a key component of effective examinations), is vital for the successful undertaking of remote examinations. The mission therefore recommends that the RBZ takes into account the following points when setting up and structuring remote examinations:

- The success of remote examinations largely depends on the effective functioning of IT services. Supervisors should take time to establish reliable communication between counterparts to facilitate meeting conferencing, remote walkthroughs, large file sharing and possible remote system access<sup>2</sup>.
- Scope of examinations should be adjusted based on the ability to effectively access and assess required counterparts and information. Where required communication and access to information and data for particular risk areas or operating areas of target institutions is not available digitally or virtually, it will be extremely difficult to effectively undertake the examination.
- Allow significantly more time to undertake the examination remotely, as would be scheduled for in-person examinations. Remote modality examinations tend to be much more time consuming for all components of the examination process and for all counterparts, which multiplies potential time delays.

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<sup>1</sup> The information provided by the mission and the feedback on the RBZ's draft remote examination framework, can be used by the RBZ for remote examinations in the absence of COVID-19 operational restrictions, should the RBZ decide to continue with some form or level of remote examination in the future, as technological advancements make remote examinations more effective and efficient.

<sup>2</sup> See Appendix III

- Remote modality makes it harder to communicate effectively for all counterparts, which could lead to misunderstandings, misinterpretations, lack of information, and ineffective assessment: Adhere to some basic rules for videoconferencing, put extra emphasis on written communication and preparation of meetings.
- More emphasis is required on information sharing and communication between the examination team and the target institution; and within the examination team and the target institutions' teams. Include in examination schedule and internal operational schedules, daily check in and information sharing sessions.
- Where supervisors rely more heavily on internal control functions' assessments, they should be especially investigative about conclusions and take into account the internal controls functions' ability to effectively assess operations if also working remotely.
- Communicate the limitations of remote examination work clearly in the closing meetings and examination report. Report the examination areas that were out of scope due to the remote examination modality.

### **III. ENHANCEMENT OF THE REMOTE EXAMINATION FRAMEWORK**

3. **The remote examination framework provides a framework for undertaking remote examinations, in reference to the existing examination procedures.** The mission believes the framework could provide more details on specific areas of examination and how the remote work will be undertaken. The duties of the examination team (i.e. the examiner in charge, the team leader and/or team members) within the remote approach should be clearly defined and the framework could include information on examination areas considered less feasible to be performed remotely. The mission also recommends including more practical details on the means of remote communication; which communication tools are to be used; how can these be accessed; and who is responsible for setting up these tools and meetings. A more extensive list of recommendation linked to chapters in the remote examination manual can be found in Appendix I.

### **IV. REMOTE EXAMINATION FEASIBILITY – RBZ CONSOLIDATED EXAMINATION MANUAL**

4. **For each of the examination areas identified in the examination manual, the mission reviewed the feasibility of undertaking supervisory examinations remotely, as described in the manual and provides the points for consideration in undertaking such examinations remotely.** This high-level review was undertaken to complement the primary work of the mission and does not constitute a full review of RBZ's examination manual. The key points are outlined in Appendix II. In summary, the mission considers that the areas of Risk Management, Accounting and Finance, Governance, Compliance and Internal Audit can be effectively examined remotely with the same level of depth. The investigation into these areas should be on the bank's ability to perform these tasks in a remote setting. With regards to Credit Risk, the examination will be more cumbersome, and the level of depth could be hampered by the digital availability of credit files. Branch Operations and IT security are fields that suffer most from working remotely, because part of the inspection objectives needs physical presence.

## **APPENDIX I. REVIEW OF REMOTE EXAMINATION FRAMEWORK – FEBRUARY 2021 (DOCUMENT)**

The following are points for consideration and suggested amendments to the Reserve Bank of Zimbabwe's remote examination framework document (February 2021). This feedback should be considered in conjunction with mission's outline of key points for consideration. Numbering and italics are taken directly from the document as a reference.

*1.2 - Cognisant of the foregoing, the Bank has reconfigured its supervisory approach and developed a Remote Examination Framework, leveraging on the risk-based policy and existing examination procedures.*

- Include a section on areas of the supervisory approach or process that will be affected by remote examination approach. This will provide clarity to all examiners and other users of the framework document.

*2.2 - The Framework is primarily aimed at ensuring that sufficient alternatives and workarounds, including virtual meetings, increased use of electronic transfer of data and files by supervised entities to the supervisory authority are employed, in a process underpinned by expanded off-site surveillance.*

- Identify the information and communication tools to be used to undertake the remote work. For example, which videoconferencing platform is preferred, which ones are allowed, available secure portals for submission of documents.

*2.5 - Where declarations by Head of functions are required, Bank Supervision will design such templates for completion by the institution specifying the areas to be covered.*

- Consider including or specifying declarations by internal control and risk management functions, as well as Board committees, rather than heads of functions, which may preclude independent assurance.

### *3. Remote Examination procedures and Processes*

- Include section on duties of examination team (Examiner in Charge and/or Team Leader, and examiners). Specify who should be responsible that virtual meetings are organized and recorded, or minutes taken. For the examination lead, specify tasks including the level of review of working papers required.

#### *3.1 Entry Letter*

- Before any communication to target institution about examination, undertake an assessment of conducting remote examination at specific institution, and determine feasible examination scope.

- Communicate to all supervised institutions the change in approach to the conduct of onsite examination due to COVID-19 and state clearly their responsibility in ensuring that process works effectively.

*3.1.5 Banking institutions will be given up to four (4) weeks to submit all the information. Provision will be made for submission of part of the information/data within two weeks. Such information will be specified in the Entry Letter.*

- Consider making the submission time dependent on the effort of the target institution to gather this information in a remote setting. Some institutions may already be set up for provision of information remotely, while others may need to do a lot more work to arrange submission.

*3.1.6 Given that information will now be received in electronic form, the Bank and banking institutions shall ensure that data flow, including loan files, shall be done through secure transmission methods such as cloud based collaboration products, secure e-mail services, encrypted removable media, virtual private networks, and remote desktop control services.*

- In reference to using removable media, suggest adding reference to need for COVID safe protocols whenever physical material is exchanged. This could be added as a general point to the procedures.

*3.2.1 Preliminary review processes will be underpinned by an expanded off-site surveillance framework, which facilitates timely, targeted and well-designed regulatory and supervisory interventions that provide for continued provision of critical financial services, while mitigating financial risks, and maintaining balance sheet transparency.*

- For information on expanded off-site financial analysis due to COVID-19 pandemic, refer to IMF Special Series on COVID-19 – Notes - Strengthening Regulatory Reporting and Supervisory Analysis in Response to COVID-19 <https://www.imf.org/-/media/Files/Publications/covid19-special-notes/enspecial-series-on-covid19strengthening-regulatory-reporting-and-offsite-analysis-in-response-to-co.ashx>

*3.4.1 A pre-examination quality assurance meeting will be conducted virtually, to consider the Preliminary Analysis Report, Supervisory Plan and Examination Scope Memorandum.*

- Specify in document required attendees. This point is valid for all propose meetings.

*3.7.1 Prudential meetings with Heads of Functions will be held virtually.*

- For security reasons, receive the lists of participants in advance with full names. This is to ensure there is nobody eavesdropping in any meeting, especially with strategy and board meetings. This point is valid for all videoconference meetings.

### *3.8 Field Work*

- The framework relies on declarations by the target institution, where remote assessment is deemed too difficult or not effective. Whilst resorting to declarations by the targeted institution can provide some comfort as to the existence of risk management and controls, they are rarely useful in providing comfort to the effectiveness of controls. As such it would be beneficial to first consider the possibility of virtual walkthrough and other remote means of assessment, before relying on a declaration.
- It should be noted and considered that under current operational restrictions, targeted institution officers and external auditors that are asked to give any declaration, are also most likely working from home, so their ability to do so in an appropriate manner may be constrained.

*3.8.2 The discussion below shows the variations that will be effected on the examination process and procedures laid out in the examination policy and procedures manuals.*

- Consider specifying the variations as at a minimum, to allow examiners to explore additional ways to undertake effective assessment remotely.

### *3.9 Post Field Work Processes*

- Consider having a separate section on the examination report, incorporating detail on expectations of report content and structure drafting and specified disclaimers on ability to quantify and fully assess issue, and instruction on when to commence drafting report.
- In relation to information and data received from the target institution in a different format or modality from examinations under normal conditions, there needs to be an established process to store or dispose of this information securely following the examination.

## APPENDIX II. REMOTE EXAMINATION FEASIBILITY – RBZ CONSOLIDATED EXAMINATION MANUAL – POINTS FOR CONSIDERATION

### *Risk Management*

**The scope of a remote on-site examination on the risk management function can be undertaken with a similar scope and assessment to a regular on-site examination.** Policies and procedures, committee meeting papers and minutes, and management reports can be reviewed and assessed remotely. Additional focus during a remote examination should be given to assessment of limit monitoring and follow-up of breaches. The target institution should be questioned on the ability to undertake effective risk management whilst working remotely, including access to their risk systems and ability to prepare risk reports. Furthermore, the extent to which limit breach follow-up actions are delayed by working remotely should be assessed.

### *Accounting and Finance*

**The scope of a remote on-site examination on the accounting and finance area can be undertaken with a similar scope and assessment as a regular on-site examination.** Similar to risk management, policies and procedures can be easily examined digitally and the same holds for the adequacy of the board and senior management oversight over the finance function. Capital and earnings statements are generally digitally accessible as well and can be examined remotely. With respect to the representativeness of these figures, the remote examination could rely on the external auditor, but should ensure that the external auditor work is not hampered by working remotely.

**When the on-site examination undertakes a verification of the reliability of the bank's financial information, as described in chapter 4.10, for a remote modality, it should be determined prior to the examination if and how the accounting system can be accessed.** This could either be done by having remote access to the banks systems, having remote walk-throughs with a banking employee, or requiring specific data extracts from the accounting system. With regards to the last option, it is advisable to let the target institution show the structure of the available data in the systems, to make a sensible extract in an efficient way (making extracts is time consuming, so it is better to avoid requiring multiple extracts if possible). Also note that data extracts are large files, so the setup of a shared file environment is warranted.

### *Credit*

**Policies and procedures describing credit granting criteria could be examined remotely, but reviewing the loan portfolio is cumbersome in a remote setting.** Credit files might not be available digitally and considerable effort would be needed by the target institution to digitize them. Hence it is advised to reconsider the 40% minimum coverage, stated in 5.4.5. It is recommended to gain some experience with extra time necessary to digitize these files and base

the coverage on this experience. To avoid any bias in the inspected loans, it is recommended to not base your conclusions solely on the credit files that are already available in digital form but at least investigate part of the non-digitized files. With regards to examining the credit administration and monitoring, the same observations as with the verification of the accounting system apply. Either remote direct access or a remote walkthrough is advisable.

### *Treasury Activities*

**The treasury function documentation as described in 6.6.1 could be accessed remotely and as such it is possible to review the adequacy of policies and procedures remotely.** For the assessment of adherence to policy and practice, special focus should be given how the front, middle and back office are functioning in a remote setting. If the target institution performs these tasks (partly) remotely, the examination should ensure that this does not lead to excessive operational risks, non-adherence to four eye principle and improper administration of positions. The monitoring and management of the liquidity, interest rate, market and foreign exchange rate risks can be examined remotely via digital access to risk reports and meeting minutes.

### *Corporate Governance*

**The structure of the governance framework can be effectively examined remotely.** Special attention should be given to how decision making and oversight are affected by remote working at the target institution. Some key questions: Are all meetings within the institution's governance still performed? Do the bodies within the institution that perform internal controls have access to all the information necessary to perform their duties?

### *Compliance Function*

**Assessing the compliance function is possible remotely.** Policies and procedures could be received digitally and interviews with staff can be performed remotely via videoconferencing.

### *Internal Audit*

**Assessing the internal audit function is possible remotely.** Policies and procedures and audit reports could be received digitally and interviews with staff can be performed remotely via videoconferencing. The examination should ensure that the Internal Audit function is not hampered by working remotely.

### *Branch Operations*

**The on-site examination of branch operations is an area that is hampered significantly most by remote working.** Examining teller operations, automated teller, deposit boxes etc. would not be effective from off-site. Furthermore, when examining know-your-customer procedures and branch credit granting, it will be difficult to fully assess adequacy of processes. When evidence is

only available in physical form, the additional efforts by the institution necessary to provide the documentation in digital format should be taken into account when scoping the examination.

### *Information Technology*

**Assessing the Information Technology (IT) Governance in 7.7.22 requires review of policies and minutes and it is possible to do this effectively remotely.** All pre-examination procedures (i.e. paragraph 12.4) in terms of the minimum core assessment could be assessed remotely. For an appropriate assessment of the information and documents required for the standard core assessment, the information will need to be digitized and used to assess the various IT management processes (i.e. board and senior management oversight, IT governance, ICT department structure and responsibilities, policies and procedures, risk assessment and vendor management). However, areas of IT security including application security, network security, host security, physical security, data security, access rights administration, authentication, etc.) are difficult to assess remotely. In some instances, screen sharing and virtual tours could be used to achieve minimum examination objectives. In addition, assessment of internal IT audit and compliance reports could be undertaken remotely.



### APPENDIX III. REMOTE SYSTEM ACCESS

**Direct remote access to banks' IT systems will help facilitate remote assessment.** Remote access to the bank can most easily be obtained by using the banks own hardware (i.e. receiving a laptop from the bank). The bank would need to set up an internal account for the supervisor with read-only rights. Confidentiality would be protected by moving applications to special supervisory only folders. Alternatively, remote access technologies such as remote desktop protocol, secured virtual private networks, TeamViewer and virtual tour software, could be utilized.

**Generally, areas of IT security including application security, network security, host security, physical security, data security, access rights administration, authentication, are difficult to assess remotely.** However, using direct remote access to bank systems, examinations may be able to undertake the required level of assessment and achieve examination objectives. Other supervisory objectives that could be achieved through remote access are making direct portfolio reviews from the source systems and running stress tests with the banks own software.

**It is noted however that remote access to sensitive IT systems may not be allowed by some target institutions.** The supervisor needs to discuss this and assess the security aspects related to remote access and privacy, as well as agree the extent of work and involvement of the target institutions' IT staff.