

**Govt. Notice No. 155****DIRECTIVE ON FRAUD MANAGEMENT IN COMMERCIAL BANKS**

Pursuant to section 53 of the Banking Act 2019 and section 65 of the Bank of Sierra Leone Act 2019, the Bank of Sierra Leone hereby directs commercial banks as follows:

1.0 BACKGROUND

The incidence of fraud is of high supervisory concern. The emergence of digitalization has increased the rate of fraud and is affecting the performance and profitability of banks. It is undoubtedly true that Operational Risk events have increased over the past years and the high turnover of financial fraud in the banking system could undermine the growth, development and stability of banks which is undoubtedly affecting the banking sector. This calls for urgent attention from the Bank of Sierra Leone (BSL) to take necessary action to promote fraud prevention and detection through ensuring that banks implement effective operational risk management practices that should be embedded in banks' enterprise-wide risk management programs to strengthen internal controls and maintain financial system stability.

2.0 FRAUD DIRECTIVES

1. Banks shall establish an Enterprise-wide Operational Risk Management Framework (ERMF) and set a risk appetite for operational risks using BSL ERMF as a minimum standard.
2. All commercial banks shall conduct on-going monthly monitoring of operational risks to identify control weaknesses and potential breaches of limits/thresholds focusing mainly on processes and procedures directly linked to high-risk operational areas.
3. Banks shall regularly rotate staff in high-risk operational areas and no staff shall remain in a sensitive role for an extended period except where the bank's integrity tests prove and support such action.
4. Banks shall establish an adequate Fraud Risk Policy to be used to communicate banks' commitment to fraud mitigation stemming from the Board of Directors who shall help initiate and exhibit a culture of zero fraud tolerance throughout the institution to the least staff.
5. Banks shall ensure timely reporting and escalate significant issues to the BSL. Reporting shall extend beyond identified risks to include any significant irregularities or potential threats.
6. All commercial banks shall report fraud incident(s) to the BSL immediately within 24 hours of detection. The responsibility to report to the BSL rests with the Managing Director/Chief Executive Officer.
7. Banks shall adopt a "shared events" approach, where incidents of fraud or operational risks identified in one bank are communicated to its subsidiaries and, where relevant, to other banks within the industry.
8. Banks shall maintain a dedicated Fraud Desk in their institutions which shall be adequately staffed with personnel that have the requisite skills on emerging fraud trends such as electronic payment systems and cash transactions amongst others and reporting directly to the Managing Director/Chief Executive Officer.

The Fraud Desk shall have adequate staff that are regularly trained on emerging fraud trends; receive and investigate potential or actual frauds via alerts, complaints and discovery through routine fraud examinations that must be immediately disseminated to the Managing Director/CEO who shall in turn submit the report to the BSL. The desk should have dedicated phone lines and staff managing the call center and should be provided with the resources that will enable them to receive calls.

9. The Fraud Desk shall be proactive in its operations.
10. Banks shall put mechanisms in place for early fraud detection and prevention including an upgrade of software on a timely basis.
11. Banks shall record fraudulent transactions and forward them to the Director, Banking Supervision Department copying the Director, Financial Stability Department monthly.
12. Banks shall maintain the security of funds as stated in the Financial Consumer Protection Guidelines 2022;
13. Upon completion of a fraud investigation, commercial banks shall submit a copy of the report to the Bank of Sierra Leone for a follow-up action. The responsibility for reporting to the BSL rests with the Managing Director/Chief Executive Officer; and
14. Consistent with the prudential guidelines, it is mandatory for banks to report all fraud incidences including amount, staff involved and nature of the fraud to BSL. Where a bank fails to report as required by this directive, a penalty will be levied as may be determined by BSL.

Dated 8th April, 2025