Key note address and statement by Dr. Samura Kamara, Governor of the Bank of Sierra Leone, at the third Annual Audit, Risk and Governance Africa Conference, Accra, Ghana from 22nd-25th July,2008

Mr. Chairman, Conference Organizers, Participants, Distinguished Ladies and Gentlemen good morning to you all. Let me begin by expressing my gratitude for being given the opportunity to address this gathering which comprises representatives from the financial services Industry, Risk Management regulators and other oversight bodies. The main thrust of this presentation is **Trends in Central Bank Governance – How are Central Banks supporting Accountability, Transparency and Governance?**

The incidents of sophisticated financial crimes and international financial crisis such as credit crunch and their rippling effects have intensified the need for robust accountability, transparency and corporate governance. In most African jurisdictions central banks are charged with the responsibility of ensuring that a sound and safe financial system is achieved and maintained. However, the complexity of financial instruments introduced into the African financial markets has made the challenges facing both the market operators and regulators a cause for concern.

Thus, the issue of good governance, risk management, accountability and transparency is very topical in the current situation, and needs to capture the attention of all regulatory bodies, especially central banks.

Since the establishment in 1668 of the oldest existing central bank in Sweden, central banks generally have been evolving in their assigned tasks: relationship with the state, and interaction with financial market participants, internal management and decision-making process.

These tasks have been either to fundamentally restructure the older institutions or entirely establish new ones. In all these situations central bank laws have either been revised or re-written, while institutional objectives, practices and structures have been amended or created from scratch.

Accountability is an important form of democratic oversight; who is responsible for what and for whom? It serves as an incentive for executives to meet desired goals. Central banks do not operate in a constitutional vacuum nor should they. Although, they are deemed independent, they should be accountable in order to legitimise their position within a given constitutional system. Besides, the initial act of delegation of monetary policy to a central bank by the government through an act of parliament arguably legitimizes the position of a central bank.

Central banks report periodically on their operations to the executive and legislative wings of government. Some have gone beyond this requirement to publish bulletin in which monetary policies are discussed. Functionally, monetary policies in principle form part of economic policies and thus ultimately treated as another element of economic policy when it comes to the requirement of democratic accountability.

One main way to achieve accountability is through transparency and openness. In the past, the view has been that, at least, some of the tasks assigned to central banks can be best achieved without full disclosure to the public. In more recent times central banks have become transparent in meeting demands of more openness, accountability and in disseminating monetary policies to ensure public understanding of decision taken by monetary authorities and rationale for them. It also calls for a degree of understanding of the functions of central banks. Institutional arrangements to ensure the transparent conduct of central bank activities and enabling those charged with the responsibility of judging the performance of the central bank with the necessary information to do so on a reliable basis signifies good governance.

Distinguished guests, the purpose of good governance is to build up and reinforce accountability, credibility, and transparency, along with the integrity of data and information, so as to protect shareholders, employees, customers, supervisors and the public in general.

The main elements of good governance are represented in the presence of a board of directors that has the qualifications and experience required for fulfilling its duties without any influence, laying down strategic plans and objectives, establishing a corporate value system, defining clear lines of responsibility and accountability, setting forth effective control systems backed by qualified and independent internal audit function, applying compensation systems that provide incentives for the attainment of the institution's objectives, and practicing satisfactory transparent management.

In their role as supervisory authorities, central banks have been able to enforce good corporate governance by adopting the following strategies:

- ❖ Supporting the issue of legislation and systems which would remedy the gaps and inadequacies in legislation of relevance to good governance, whether at the level of legislation governing banks as companies, or legislation governing their work as banks.
- ❖ Encouraging sound practices in banks by ensuring that they have adequate organizational structures, fit and proper boards of directors and management functions that have practical plans for handling their responsibilities.
- ❖ Continuously endeavouring to improve the regulatory and supervisory environment so as to foster competition among financial institutions, noting that competition is an important factor in encouraging, especially banks to adopt and apply the principles of good governance.
- ❖ Stipulating the separation of the position of chairman of the bank board and that of the chief executive staff, which ensures that there is no overlapping of jurisdiction between the board and the executive management, and that the board is not under any influence from inside or outside the institution.
- ❖ Enhancing the effectiveness of the board's supervision over the bank's activities by stipulating conditions governing the formation of board committees, including audit committee which should consist of non-executive directors to be responsible for overseeing and coordinating audit mechanism and internal control systems.
- ❖ Giving directives to banks and other financial institutions to ensure disclosure and transparency to the shareholders and the public.

Besides, banks are obligated to prepare and disclose their financial data according to the International Accounting Standards, and publish them in a form that makes them accessible to users in a timely manner.

- Most important among the instructions given are those concerning the application of sound practices in the management and assessment of operating risks in banks, the instructions requiring banks to set up systems on a scientific and practical basis for measuring and managing risks associated with their areas of activity, the instructions for combating money-laundering and financing of terrorism, along with a group of instructions concerning the various aspects of rationalizing credit and investment policies.
- Imposing penal charges for non-compliance with prudential requirements.

It is hoped that this conference will contribute to the realization of our aspirations in supporting good corporate governance, accountability and transparency in banks and other financial institutions.

In closing, I wish to emphasize that the main basis of good governance lies in developing the values and professional ethics of corporate managers and staff alike to improve the integrity and accountability of institutions. What is more important is the role, competence and responsibilities of board members. Non-executive directors have a duty to fill the gap between partially informed shareholders and fully informed executive managers, by the former monitoring the latter, closely.

In order to make the board of directors a more effective tool to check on the powers of the management, special attention needs to be paid to the role, quality and integrity of non-executive directors.

Board members should also be truly accountable to the stakeholders through sound and reliable reporting of the state of affairs of the institution, as the clarity of financial statements to stakeholders can enhance their understanding and appreciation of the performance of the institution.

The question however remains as to whether central banks are truly autonomous to provide all the supports required for good governance, accountability and transparency without political interference. The challenges are to have:

- Central banks with legal status to carry out their functions i.e. monetary policy, exchange rate policy, price stability without political interference.
- Central banks with clear and prioritized written objectives.
- Central banks with communication strategies for explaining policies and reporting their activities to the public.
- Central bank governors and chief executive officers accountable to parliament or board of directors.

I thank you for listening.