

Caleb M Fundanga: International financial reporting standards for banks and other financial institutions

Speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of a workshop on “International financial reporting standards for banks and other financial institutions”, organised by the Bank of Zambia in conjunction with the Zambia Institute of Chartered Accountants, Lusaka, 17 February 2005.

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- The Chief Executive, ZICA
- Distinguished Resource Persons
- Distinguished Participants
- Ladies and Gentlemen,

I wish to welcome you all to this important workshop on International Financial Reporting Standards (IFRSs) and International Auditing Standards, (ISAs) organised for finance officers and auditors from commercial banks, non-bank financial institutions and the Bank of Zambia. This workshop is organised by the Bank of Zambia in conjunction with the Zambia Institute for Chartered Accountants (ZICAs) out of the recognition that the International Financial Reporting Standards (IFRSs) and International Auditing Standards (ISAs) are critical not only to the integrity of our financial system, but also to the Bank of Zambia's efforts of ensuring effective supervision and regulation of banks and non-bank financial institutions.

As you may be aware, three important factors have heightened the relevance of accounting and auditing standards to bank supervisors. These, include:

- First, IFRS and ISAs are a set of high-quality, transparent and globally renowned accounting and auditing standards that the Financial Stability Forum (FSF) has included in its 12 Key Standards for Sound Financial Systems. The standards are, without doubt, likely to make the greatest contribution to reducing vulnerabilities and strengthening the resilience of our financial system;
- Second, the adoption of IFRS is expected to result in higher quality reporting of the health of the financial institutions in Zambia. By so doing, Zambia will benefit from quality international research on accounting and finance issues and also benefit from cross-border comparability of financial performance and condition amongst banks and non-bank financial institutions; and
- Third, the use of IFRS is expected to play a critical role in the implementation of risk-based supervision of financial institutions in Zambia.

Ladies and Gentlemen

Allow me, at this juncture, to inform you that in the recent past, the Bank of Zambia has streamlined the supervision of banks and non-bank financial institutions to make it more focused on risks. This is aimed at encouraging banks and non-bank financial institutions to implement sound risk management practices that provide for:

- active oversight by management and the Board of Directors;
- clearly defined policies, procedures, and delegation of authority;
- comprehensive risk measurement and reporting systems; and
- adequate institution of audits and other systems of internal controls.

Further, the Bank of Zambia recognises that accounting, auditing, and disclosure play a crucial role in enhancing financial stability. For instance, accounting standards provide the foundation for the production of credible financial statements and other disclosures that communicate a firm's operating results, overall health, as well as raise the transparency of its various operating activities. On the other hand, disclosure of reliable information facilitates market discipline, engenders confidence, and

reduces the possibility of rumours and misleading information that could cause market instability. Disclosure of information however, should not compromise proprietary data, but must be flexible enough to accommodate future advances in risk management. Such outcomes therefore, have obvious implications for the supervisor's ability to oversee the safety and soundness of financial institutions.

The foregoing notwithstanding, the Bank of Zambia has made significant progress in strengthening the supervisory approaches and risk management guidance to banks and non-bank financial institutions. It is for this reason that the Bank will continue to attach great importance to risk-based supervision, accounting and auditing standards, so that the financial statements produced by banks and non-bank financial institutions convey adequate information about their risk management activities to key stakeholders, such as, shareholders, creditors, depositors, and any other interested parties.

These are daunting challenges. Nevertheless, I am certain that as our accountants and bank supervisors acquire more expertise, new ways of viewing risks and reporting them in financial statements would be devised. As such, financial and supervisory reporting will become even more critical to the existence of efficient financial markets as well as effective supervision of banks and non-bank financial institutions.

As I conclude, Ladies and Gentlemen, I would be remiss if I did not acknowledge the support of other institutions during the preparation of this workshop. To this effect, I wish to thank Standard Chartered Bank, PriceWaterhouseCoopers, KPMG, Deloitte and Touché, Grant Thornton, the Zambia Centre for Accountancy Studies and ZICAB Tuition Centre, for having agreed to provide resource persons for this workshop.

With these few remarks, it is now my honour and privilege to declare this workshop officially open.

I thank you.