

## **Caleb M Fundanga: Integrity and professionalism in finance, industry and business**

Keynote speech by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the ACCA Professionalism and Ethics Event for Employers, Lusaka, 7 November 2007.

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- The Chairman
- Mr Sundeep Takwani, ACCA Head of Ethics and Regulation – Professional Standards
- Mr Chintu Mulendema, ZICA President
- Senior Government Officials
- Heads of Corporates
- All protocols observed
- Distinguished Ladies and Gentlemen

I am honoured to stand before you to discuss the matter of “integrity and professionalism in finance, industry and business”. I commend ACCA Zambia for organising this forum which allows us to discuss matters which have long been considered of primary importance in the financial sector. I am certain that the importance of this subject extends beyond the financial sector to all sectors of the economy.

Mr Chairman, this event, the first in the series of ACCA professionalism and ethics events to be held in Zambia coincides with the launch of the ACCA new professional qualification, which will be first examined in December 2007. Named the **ACCA qualification**, it will build on the success of the current professional scheme, which has become the world’s fastest-growing international accounting qualification.

Mr Chairman, The new ACCA qualification is designed to provide accounting knowledge skills and professional values which will deliver finance professionals who are capable of building successful careers across all sectors, whether they are working in the public or private sectors, practising in accounting firms or pursuing a career in business.

ACCA has designed a qualification which embeds the global accounting education standards set by the International Federation of Accountants (IFAC). There is a strong focus on professional values, ethics and governance.

These skills are essential as the profession moves towards strengthened codes of conduct, regulation and legislation with an increasing focus on professionalism and ethics in accounting. They will be examined at the highest level in the new ACCA Qualification, and will be a core element of students’ practical experience requirements.

Mr Chairman, allow me now to dwell on the main theme of our discussion this evening.

Going through the literature one finds it difficult to obtain explicit definitions as regards the concepts of “integrity” and “professionalism”. However, the associated behaviours and characteristics of the two concepts are fairly unproblematic. In this regard, behaviours associated with “integrity” include honesty, sincerity, truthfulness, punctuality, ethics, fairness and justice while professionalism is characterised by expertise, generalised and systematic knowledge, a high degree of self control and governance by a code of ethics.

Mr Chairman, the behaviours and characteristics described are virtues which are desirable in finance, industry and business. I note that this forum is for employers and one fundamental aspect about being an employer is that you may not be involved in the day-to-day operational issues of your organisation, hence the need to have professional employees of integrity. This gives comfort as regards reliability of financial reporting, compliance with laws and regulations, effectiveness and efficiency of operations and safeguarding of assets. These issues which give comfort are encompassed within the framework of corporate governance.

Mr Chairman, in the recent past the world has witnessed a number of corporate failures such as Enron, Worldcom and Parmalat brought about largely by fraud on the part of employees. This has brought the discussion of corporate governance to the fore in finance, industry and business. The behaviour of corporations and the people that run these corporations have come under increased scrutiny by stakeholders and the wider public, not least of all, the financial sector in Zambia following the banking failures which we experienced in the late 90's. The financial sector thus provides a critical example of the need for integrity and professionalism, and the Bank of Zambia has a keen interest in ensuring that these principles are upheld by players in the financial sector.

The Bank of Zambia's interest stems from its mandate to protect depositor's interests as well as to ensure financial system stability. As the examples of Enron, Worldcom and Parmalat have shown us, poor corporate governance may lead to corporate failures. For the financial sector, this can cause significant public costs and consequences due to the potential negative impact on the payment systems and the loss of confidence in the financial sector as a whole. As a result, the Bank of Zambia issued "Corporate Governance Guidelines for Commercial Banks and Financial Institutions" in November 2006 in an attempt to instil corporate responsibility in the financial sector.

Mr Chairman, the corporate governance guidelines issued by the Bank of Zambia offer vital lessons to other economic sectors with regard to integrity and professionalism. In this regard, allow me, Mr Chairman, to outline just four of the principles out of a total of 15 principles that are contained in the guidelines:

### **Principle 2 – ethical standards and corporate values**

"The board of directors, in keeping with their responsibilities to the shareholders and other stakeholders, is committed to the achievement of business success and the enhancement of long-term shareholder value with the highest standards of integrity and ethics. Each director, as well as each member of senior management, is therefore expected to lead by example in a culture that emphasizes trust, integrity, honesty, judgment, respect, responsibility and accountability."

The guidelines for this principle essentially call upon the board to ensure that senior management implements strategic policies and procedures that are designed to promote good and acceptable ethical behaviour.

### **Principle 3 – board responsibilities and composition**

"The board of directors' role is to oversee the proper functioning of the institution. In order to achieve this, the board shall have clear, well-defined and understood responsibilities. There shall be a balance of skills, knowledge, experience and perspectives among directors so that the board works effectively to ensure the long-term safety and soundness of the institution."

The guidelines in this respect expect the board of directors to exercise professionalism by having a formal charter that sets out its responsibilities, having a rigorous formal processes for evaluating its performance along with that of board committees and individual directors and, ensuring that the institution complies with all relevant laws, and codes of business practice, and that it communicates with its shareholders and relevant stakeholders openly and promptly

### **Principle 6 – roles of senior management**

"It is the responsibility of management, under the direction of the chief executive officer, to conduct the institution's business and affairs in an effective, responsible and ethical manner,

consistent with the principles and direction established by the board through the strategic plan.”

Apart from reflecting integrity in their management of the institution, the guidelines for this principle require that senior management be appropriately qualified to run the affairs of the institution. The expectation is that people of appropriate qualifications will reflect the professionalism that is required of their respective professions.

### **Principle 7 – reporting and disclosure**

“The board shall demand integrity both in financial reporting and in timeliness and balance of disclosures on the institution’s affairs.”

The guidelines for this principle require that the institution’s financial statements fairly present the state of affairs of the institution as at the end of the financial year and the profit or loss and cash flows for the reporting period. Furthermore, the annual report is expected to state whether the corporate governance guidelines have been adhered to or, if not, where there has not been compliance the institution is expected to give reasons.

Mr Chairman, as you will note the four principles highlight the fact that the Bank of Zambia places a great deal of importance on integrity and professionalism in the financial sector. Our expectation is that this should extend to other economic sectors as well. Lessons can thus be drawn from the work that the Bank of Zambia has done and can be applied to the other sectors.

Mr. Chairman, the prevalence of fraud in institutions all over the world has culminated with regulatory authorities in several jurisdictions instituting jail terms and fines against the scourge. The famous Sarbanes-Oxley is one such response. Our own corporate governance guidelines have a strong linkage to the Banking and Financial Services Act which when not adhered to may result, upon conviction, to a fine or to imprisonment for a term not exceeding two years or to both.

Mr. Chairman, the international work that is being done in respect of money laundering and corruption payments or terrorist financing is such that trade and service companies, like banks, are now being held accountable for what they deal in and whom they trade with – as suppliers as well as buyers. The implications of anti-money laundering (AML) are such that they extend to all forms of finance, industry and business. It is thus critical that the principles of integrity and professionalisms are applied in all spheres of institutional activities.

Mr Chairman  
Ladies and gentlemen

I thank you for your attention.