

## **Governor's Speech**

### **4<sup>th</sup> East African Central Banks Audit Conference**

**23<sup>rd</sup> January 2018**

**Chief Audit Executives of EAC Central Banks;**

**Invited Guests;**

**Ladies and Gentlemen**

**Good morning,**

I would like to take this opportunity to thank you for honouring our invitation and welcome you all to this 4<sup>th</sup> East African Central Bank's Audit Conference. I hope you are all enjoying your stay in Rwanda. I am pleased to be here this morning to officially open this 4th East African Central Bank's Audit Conference which will focus on the role of internal audit in corporate governance and information system management.

It is a common belief that auditors are the most reliable people. They have an eye for detail and are always accurate. I hope this belief is true, because in many institutions including in central banks, management relies on internal audit for improvement of corporate governance, internal control systems and various other policies and procedures.

Internal audit plays an important role in how central banks operate and it is therefore important that as central banks in the East African Community, we meet annually to review and assess how our respective central banks comply with the auditing standards in place.

This is important given our efforts as the East African Community to push ahead with regional integration. You may all know that the EAC is planning to create a single regional central bank in 2024. In line with this target, the EAC monetary institute is planned to soon be operational, to help pave the way for a regional central bank. Having a single EAC central bank is not only significant for the conduct of monetary policy, but also will affect the day to day operations of a Central Bank. EAC central bank integration means

that we need to harmonise the way we work, this is why complying with the standards we put in place as EAC central banks is of utmost importance. As internal auditors, it is therefore imperative that we start getting ready for the change, to ensure that we lay the groundwork for when that time comes.

**Ladies and Gentlemen,**

The focus of this conference is the role of internal audit in corporate governance and information system management; these are issues at the heart of central banking today, given the complexity of the challenges we face. I would like to discuss why these issues are relevant for us as internal auditors in Central banks.

Corporate governance has been placed in the spotlight in recent years. For Central banks, the focus on corporate governance is driven by our public-interest mandate, which demands both that we are accountable and independent. A good governance structure instils confidence that a central bank can deliver effectively on its objectives and be seen as a credible and accountable organisation that contributes to a stable economic environment.

Although governance is the responsibility of the board of directors, it is the work of the audit committee to ensure that they monitor, test and guarantee a well-functioning internal control system which is done through the day to day activities of the internal audit function. An effective internal audit function will have a positive impact on the operation of internal controls. A key attribute is the ability of audit to be objective when evaluating and reporting on whether management activities and internal controls are operating effectively. These help to create a good governance structure, which as a result helps Central banks to be effective in delivering on their key objectives.

Although we are all in the EAC region, I appreciate that we may have some differences. These exist in our cultures, our traditions and our different backgrounds which may influence how we view the world, in a way that is not similar. Such differences could affect our approach on governance because we may view it in different aspects. It is therefore the role of internal auditors to ensure that we develop a set of common principles, a set of common standards, taking into account our broad range of views, that will guide us on how to uphold the best corporate governance as we move forward on the integration agenda.

## **Ladies and gentlemen,**

As central banks, we also deal with highly sensitive data and information on a day-to-day basis. This means that like all other central banks across the world, we are not immune to breach of information systems, which may have severe consequences, not only to our credibility as managers of the economy, but also to the wider economy. Technology is fast evolving in today's world; as IT systems are becoming complex, the challenges we face in this arena also grow complex – cybercrime is a case in point.

Central banks across the world have been exposed to the risk of cyber-attacks, where criminals look to exploit the weaknesses in all layers of IT Governance, such as lack of guiding operational policies and procedures, lack of regular compliance review, lack of security awareness, absence of systems monitoring, lack of basic security hygiene, among others. In 2016 for example, we were witness to the theft of 81 million dollars from the Bank of Bangladesh where hackers exploited the SWIFT network servers. We can therefore increase our physical security personnel at our respective institutions, but doing this without strengthening our IT protocols and ensuring the right IT due diligence is conducted, we would still not be insulated from this risk.

I am not arguing that physical security is less important – it is indeed. But I would like to stress that more than ever, the criminals we are up against are not the machinery type – gun robbery gangs, but instead we are up against the white collar, tech savvy hackers who, with just a few clicks could launch the worst attacks on our institutions. Information security management is therefore very crucial in this era.

As central banks, we have to stay ahead of the game, we have to ensure that the best procedures are enhanced, that our IT systems are up to date and meet the standards and we need to ensure that there are no gaps whatsoever, that the hackers can exploit. It is the role of internal audit to help our central banks to adhere to the best protocols, to test that we are not vulnerable to these attacks and advise accordingly, in case we need to step up our internal controls. Many people may think that the role of audit is just to balance the books, that auditors don't do anything else apart from checking and creating financial statements, but audit is bigger than this. And as the world evolves, the audit function has evolved. Indeed, audit touches every aspect of an institution. Perhaps, this

is a reason we should also feel proud as auditors. Because audit is the cornerstone for the well-being of any organisation.

**Ladies and Gentlemen,**

This would not be a speech on audit if we didn't talk about financial reporting, as such the new reporting standards – IFRS 9, comes to mind. IFRS 9 introduces a new methodology for financial instruments classification and the incurred loss impairment model is replaced with a more forward-looking expected loss model. It also fundamentally redrafts the accounting rules for financial instruments. With the implementation of IFRS 9 on the door, institutions will need to assess people, processes, technology and controls that will be necessary to drive an effective implementation. All these changes will require constant capacity building for Central Bankers and internal auditors in particular.

The implementation of IFRS 9 will undoubtedly bring about a closer integration of different functions and skills, inclusion of new instruments particularly under the new impairment framework, and the preparation of new methodological framework, policies and processes. As a group of EAC central banks looking to harmonise our frameworks in preparation for the EAC central Bank, we should take IFRS 9 as an opportunity to develop uniform procedures and reporting standards.

**Ladies and Gentlemen,**

As I conclude, let me remind you that we are here today to discuss and implement strategies that would help and strengthen our audit functions. To assess the progress we have made, to ponder on the challenges we face and share ideas on how to harmonise our procedures as we collectively adopt strong frameworks to deal with any future shocks.

Therefore, I urge all of you to make good use of this conference, to share experiences and formulate strategies that will strengthen the audit function. As the global economy changes, we ought to keep evolving. I am glad that we are all here to do just that, to learn from each other and evolve.

After all, if we are to achieve stronger and healthy integration, it is important that we take lessons from each other, brainstorm together and build as one team.

Thank You.