

**CIRCULAR**  
**ON**  
**REQUIREMENTS FOR BANK AND FINANCIAL INSTITUTIONS**  
**TO HAVE A SYSTEM OF CHECKS AND BALANCES**

\*\*\*\*\*

This circular gives guidance on the need for bank and financial institutions to have a system of checks and balances in its accounting system so that the accuracy of accounting records can be enhanced and errors promptly highlighted and corrected. A system of checks and balances forms part of the overall internal control system of a bank and minimizes operational risks in banking operations. As a minimum standard, each bank should ensure that the following areas form part of its system of checks and balances.

**Segregation of staff duties**

Banks should not allow a single staff to perform all aspects of a banking operation. For instance, the same staff should not recommend, approve, analyze, disburse, record and control collateral in a loan operation; the staff in charge of computer operations should not also perform program development or program modifications; the cashier who accepts cash deposits for lodgment into customers' accounts should not also be responsible for the general ledger. In general, the functions of recording, custody and authorization should be kept separate for any specified banking operation. Banks should avoid conflict of interest situations when assigning tasks to staff to ensure a proper system of checks and balances.

**Accounting Entries and Records**

Where journal entries are raised manually, they should be properly authorized by a bank officer. The bank officer should sign on the accounting voucher as evidence of authorization before it can be posted to the general ledger. In a computerized environment, the authorization is usually done on a computer monitor on - line. However, the access and authorization rights of staff are maintained in a computer file and this should be properly reviewed by management in respect of data entry, authorization and modification.

**Dormant or Inactive Accounts**

Banks should segregate dormant and inactive accounts from active accounts to have better control over these accounts. An account is normally considered dormant if there is no activity for over 12 months. Special attention should be paid to dormant accounts of demand and savings accounts of customers. A check and balance system would require specific authorization from a senior bank officer if there was a sudden account activity in the dormant account.

Banks should transfer credit balances of customer accounts which have been dormant for 10 consecutive years to the National Bank of Cambodia for administration in accordance with article 71 of the Law on Banking and Financial Institutions.

**Monthly Balancing of Subsidiary Accounts**

Banks should periodically agree the subsidiary records and accounts to the control accounts and general ledger. This should be done not less than once a month.

**Physical Count of Assets**

Banks should have written procedures to periodically count physical assets to agree with the control accounts and general ledger. The following states the minimum frequency of counting.

	Frequency
Physical assets	Monthly
Cash in vault and on hand	Monthly
Securities	Monthly
Certificates of deposits	Monthly
Collateral	Semi - Annually
Bills Receivable	Quarterly
Usance Bills	Quarterly
Letters of Credit Outstanding	Semi - Annually
Guarantees	Semi - Annually
Properties	Semi - Annually
Fixed assets	Semi - Annually

### **Bank Reconciliation**

Banks should ensure that reconciliations are carried out for all nostro accounts, at least once a month. Open items should be properly investigated and followed to their proper conclusion. Bank reconciliations should also be reviewed by a bank officer who should approve them.

### **Suspense Accounts**

Items recorded in suspense accounts should be promptly investigated and properly transferred to the proper chart of accounts number. Suspense items should not be carried forward for more than a few days. Bank management should write off items in suspense if they cannot be recovered. This account is not to be used when a proper chart of account number exists to record the transaction.

### **Backup procedures and Disaster Recovery Procedures**

Banks should have written procedures concerning backup of accounting records, customer records, computer tapes and disks, collateral register and other documents of value. Among the items to consider are such issues as frequency of backup, off-site location, media of backup and procedures. Banks should have written procedures on disaster recovery and business resumption plans.

Backup procedures and disaster recovery procedures should be tested at least once a year. Proper documentation should be kept.

### **Internal Audit**

Banks should set up an internal audit department. The internal auditor should report to the highest management level practicable and be independent of operating functions to maintain independence and efficacy.

Banks are reminded of Prakas B7.00-04 on the Licensing of Banks, Article (I) on Internal Audit.

Phnom Penh, 25 January 2005

**Bank Supervision Department**

Signed: **Mr. Phan Ho & Mr. Kim Vada**