

EXAMPLES OF MINIMUM INTERNAL CONTROL MEASURES
(Appendix to Sec. 162 on Control Activities)

1. Independent balancing

- a. Monthly reconciliation of general ledger balances against respective subsidiary and supporting records and documentation by someone other than the bookkeeper or the person handling the records, or the person directly connected with processing the transactions;
- b. Irregular and unannounced count of teller's/cashier's cash and checks and other cash items and vault cash including Automated Telling Machine's (ATM) cash dispensers by the auditor/control officer or by an officer not connected with cash department or its equivalent;
- c. Monthly reconciliation of due from banks, cash in bank accounts (domestic and foreign) and due from/to head office/branches by someone other than the person handling the records or posting the general ledger entries;
- d. Periodic verification of securities and collaterals by someone other than their custodian; and
- e. Periodic verification of the accuracy of the interest credits to deposit liabilities accounts.

2. Physical handling of transactions

- a. A person handling cash shall not be permitted to post the ledger records nor should posting the general ledger be performed by an employee who posts the depositor's/investor's/creditor's subsidiary ledgers;
- b. A lending officer shall never be allowed to disburse proceeds of loans, accept payment on loans nor post loan ledgers;
- c. The functions of issuing, recording and signing of drafts/checks shall be separated;
- d. Checks and other cash items shall be maintained either by an employee not handling cash or by the Rack/Distributing Department provided that adequate control as to custody and disposition of funds are properly maintained;
- e. The receipt of statements from depository bank shall be assigned to an employee other than the one connected with the preparation, recording and signing of bank drafts or checks;
- f. Custodians of securities shall not be allowed to handle security transactions;
- g. Collateral appraisal shall be done by an employee/officer who does not approve loans;
- h. Incoming checks and other cash items shall be recorded chronologically in a register by an employee other than the bookkeeper before they are forwarded for posting purposes;
- i. Credit reports shall be obtained by someone other than lending officers;

- j. Mailing of customers' statements and delinquent notices shall be done by an employee other than the one who granted the loan or the one handling the records;
- k. Dispatching and delivery of current account statements shall be done by someone who is not involved in current account operations; and
- l. For QBs, paid checks/drafts should be controlled and maintained by an officer/employee other than the authorized signatory or the cashier.

3. Joint custody

The following shall be under joint custody:

- a. Cash on hand or in vault and in ATM cash dispensers;
- b. All accountable forms;
- c. Collaterals;
- d. Securities;
- e. Documents of title and/or ownership of properties or fixed assets;
- f. Dormant deposit ledgers/EDP print- outs and corresponding signature cards including on-line posting of dormant accounts;
- g. Import documents;
- h. Trust receipts;
- i. Collection items;
- j. Duplicate keys, safe deposit spare locks and keys, and keys to unrented safe deposit boxes;
- k. Safekeeping items;
- l. Vault door and safe combinations;
- m. Unissued specimen signature books;
- n. Correspondent's and bank's own telegraphic and/or electronic fund transfer system or cable test keys currently in use;
- o. Test key fixed numbers unissued;
- p. Unissued and captured ATM cards and similar devices;
- q. Access locks and keys to on-line EDP terminals and similar devices; and
- r. Access locks and keys to EDP mainframes and peripherals.

4. Dual Control

The following accounts/transactions shall be under dual control:

- a. Checks, cashier's/manager's checks, telegraphic transfers (TTs) and electronic fund transfer system (EFTS) – The signature of at least two (2) officers should be required in the issuance of cashier's/manager's checks and payment orders (incoming and outgoing) of TTs and EFTS. The board of directors may, however, prescribe a predetermined amount by which one (1)

senior officer can sign checks or payment orders, subject to appropriate control measures.

- b. Certificates of Time Deposit – The board of directors of a bank is given the discretion to determine the number of signatories for the issuance of certificates of time deposit (CTDs). The internal control measures for the issuance of CTDs include, at a minimum, the following activities:
 - (1) Joint custody of unissued CTD forms;
 - (2) Accounting for all issued/ cancelled CTDs;
 - (3) Signature requirement for the issuance of CTDs;
 - (4) Counterchecking of issued CTDs against the tellers' proof sheets/validated slips; and
 - (5) Recording of CTDs transactions.
- c. Bank Drafts – The signature of two (2) authorized officers should be required in the issuance of bank draft.
- d. Borrowings – The signature of the least two (2) authorized officers should be required.
- e. All transactions giving rise to Due to or Due from accounts and all instruments of remittances evidencing these transactions particularly those involving substantial amounts should be approved by two (2) authorized officers.

5. Number Control

The following are the forms, instruments and accounts that shall be number-controlled:

- a. Bank drafts;
- b. Checks, manager's and cashier's checks;
- c. Promissory notes and other commercial papers;
- d. Savings deposit accounts;
- e. Demand deposit accounts;
- f. CTDs;
- g. Letters of credit;
- h. Collection items;
- i. Official and provisional receipts;
- j. Certificates of stocks;
- k. Loan accounts;
- l. Expense vouchers;
- m. Payment orders (incoming and outgoing) of TTs and EFTS;
- n. Transfer requests through EFT involving bank's accounts abroad;

- o. EDP batch transmittal slips of documents; and
- p. Due to/from head office/branches tickets.

6. Confirmation of accounts

At least once a year, the internal auditing staff shall confirm by direct verification with bank clients, the following:

- a. Balances of loans and credit accommodations of borrowers;
- b. Deposit account balances particularly new deposit accounts, dormant accounts and closed accounts;
- c. Outstanding balances of borrowings and other liabilities; and
- d. Outstanding balances of receivables/ payables.
- e. For QBs, collaterals securing said accounts.

7. Internal control procedures for dormant accounts ¹

a. Definition of dormant accounts

- (1) Current or checking accounts showing no deposit or withdrawals for a period of one (1) year.
- (2) Savings account showing no deposit or withdrawal for a period of two (2) years.

b. Internal control measures

- (1) As a matter of policy, banks shall exert all efforts to prevent deposit accounts from becoming dormant.
- (2) When an account is about to become dormant, the depositor shall be notified of its potential dormancy at least sixty (60) days prior to the commencement of the dormancy period.

The notification shall contain the following information:

- (a) The effect of dormancy to transfer the account from active to dormant status, and advice on how to reactivate the account; and
- (b) Reminder that the dormant account will be included in the list of unclaimed balances to be submitted to the Treasurer of the Philippines (Treasurer) for escheat in accordance with the Unclaimed Balances Act, if said account has no activity for ten

(10) years.

- (3) The bank shall adopt appropriate internal control measures to ensure that all transactions affecting dormant deposit accounts are legitimate.
- (4) When an account is about to be subject to dormancy fee, the depositor shall be notified at least sixty (60) days prior to such imposition.
- (5) For unclaimed dormant deposit accounts considered for escheat, the depositor of such account shall be notified at least sixty (60) days prior to the filing by the bank of the sworn statement to the Treasurer pursuant to the Unclaimed Balances Act.
- (6) Banks shall permanently retain records of escheated deposits, together with proof of all the relevant notices. For the purpose of this item, records of escheat shall refer to the sworn statement of the bank to the Treasurer regarding the unclaimed balances, and the court order declaring that said unclaimed balances have been escheated to the Government of the Republic of the Philippines and commanding the bank to forthwith deposit the same with the Treasurer. Relevant notices to be retained shall include copies of the notices referred to in Items "(2)", "(4)" and "(5)" of Item "7.b".
- (7) Individual notifications shall be sent to the client's last known postal address/e-mail address/contact number either through postal or registered mail, courier delivery, electronic mail, text messages, telephone calls or other alternative modes of communication, as may be elected by the client.
- (8) The provisions of Items "2", "4", "5" and "6" of Item "7.b" shall apply, notwithstanding any contrary provisions in the terms and conditions.

8. Other Internal Control Measures

a. Deposit accounts

- (1) All new current accounts shall be approved by a designated officer.
- (2) Signature cards and deposit ledger sheets shall be authenticated by some form of validation. Subsequent changes shall also be validated.
- (3) Signature cards and deposit ledger sheets shall be accessible only to authorized persons.

- (4) Deposit tickets shall be occasionally examined at irregular intervals to determine that postings are made on the actual date deposits are received.
- (5) Checks shall be cancelled as soon as they have been paid and posted.
- (6) Reports on closed accounts and returned checks shall be prepared daily.
- (7) All current account statements shall be mailed or sent electronically via electronic mail (e-mail), or such other electronic means direct to depositors: Provided, That banks using the electronic means of sending the current account statements shall have prior Bangko Sentral- approved internet banking service and shall strictly observe the required retention of electronic data messages or electronic documents under Section 13 of R.A. No. 8792, otherwise known as the "Electronic Commerce Act". Undelivered statements shall be retained by an organizational unit not responsible for demand deposit account processing.
- (8) An officer shall be designated to attend to customers who report differences on their statements.
- (9) Checkbooks shall be issued only against requisition forms signed by an authorized signatory to the account.
- (10) Banks shall adopt a system to establish the identity of their depositors.

b. For QBs: Investments

- (1) Investment limits and a list of accredited companies as approved by the board of directors or by its Credit Committee should be established as a guide for investing in any FI engaged in money market trading.
- (2) Investments should be secured by assets approved by the board of directors or by its Credit Committee.
- (3) Checks representing placements of investments should be released only upon receipt of either the deposit substitute instrument or the underlying securities or documents of title.

c. Miscellaneous

- (1) Loan applications and related documents shall be verified to ensure their authenticity

- particularly the name, residence, employment and current reputation of the borrowers.
- (2) Tellers/cashiers paying checks to strangers shall obtain positive identification of the person and the account on which the checks are drawn should be verified.
 - (3) No employee shall be permitted to process transaction affecting his own account.
 - (4) Tellers/cashiers and other employees having contact with customers shall be prohibited from preparing deposit ticket, withdrawal slip or other forms for the customer.
 - (5) All banks shall have a sound recruitment policy.
 - (6) In the case of TBs, all accountable officers and employees shall be bonded.

All QBs shall secure adequate insurance coverages, fidelity and other indemnity protection.

(Circular No. 871 dated 05 March 2015, 928 dated 24 October 2016 and 903 dated 29 February 2016)

Footnotes

1. The requirement for additional notification prior to escheat under Item "7.b.(6)" took effect on 11 November 2016.
All other provisions shall take effect on 25 April 2017.