TIRUVALLA EAST CO-OPERATIVE BANK LTD.

Policy/Standard Operating Procedure (SOP) for Internal/Office Accounting

(Approved as per Resolution No.   of the BoD dated 18.03.2025)

Introduction

An Internal Office Account in the in Urban Co-operative Banks (UCBs) is a temporary account used to move funds between different branches within a bank. These accounts are different from customer accounts.

A policy or Standard Operating Procedure (SOP) for Internal/Office Accounting typically includes guidelines on key aspects like transaction recording, inter-branch reconciliation, segregation of duties, cash management, ledger maintenance, periodic reporting, moving funds in treasury and compliance with Reserve Bank of India (RBI) regulations, ensuring accuracy and proper internal controls within the bank's accounting operations.

How office accounts are used

Banks create office accounts to temporarily hold funds before crediting them to the intended account holder. For example, when a cheque is presented for clearing, the issuing bank may credit the amount to the office account instead of the account holder's account. The branch then holds the funds for a day or two before making them available to the account holder.

Some wrong practices in UCBs

RBI has noticed that some bank managers are playing around with these temporary funds to favour some customers. One of the practices found to be occurring is, the manager using his discretion to allow a temporary overdraft to customers. The customer may have an account where there is a loan default and the account could turn NPA if some payment does not come in. This temporary overdraft is used by the customer to pay into that account and avoid being categorised as NPA. The entries are later reversed when the funds are arranged by the customer. As per the existing arrangements, the customer and the manager have a month's time to set right this default and square up the account.

These actions need not be included in any report and therefore go undetected at the level of the bank's controlling offices and at RBI.

A more serious misuse of this office account found by RBI is the case of money laundering. If the customer and the manager are hand in glove, the customer is allowed to deposit large amounts of cash in the office accounts and later the amount is credited into the customer's account by debiting the office account through internal transfer voucher where the cash transaction stands hidden.

Under normal circumstance, any bank branch will have to report abnormal cash deposits in their branches to the Financial Intelligence Unit (FIU). This setup will then have the customer's case investigated to ensure that there is no case of money laundering involved. This is being circumvented by the above misuse of the office account by branch managers.

Access to office accounts

The Finance and Accounts (F&A) department is usually responsible for managing office accounts. Access to office accounts is usually given to employees based on their roles, authority, and usage needs

Key components of an Internal Office Accounting SOP:

1. Compliance with RBI regulations: All applicable RBI guidelines regarding accounting practices, including the Banking Regulation Act, for UCBs shall be strictly adhered to.
2. Segregation of duties: User roles shall be assigned for operating internal accounts and shall be reviewed on a priority basis. Clear separation of responsibilities for authorization, recording, and custody of assets to prevent fraud and errors shall also be effected.
3. Documentation and record-keeping: Proper documentation for all transactions, including supporting vouchers, ledgers, and journals shall be maintained.
4. Daily accounting: Timely recording of all transactions in the relevant ledgers, including cash receipts, deposits, withdrawals, loan disbursements, and interest accruals shall be made.
5. Double-entry bookkeeping: Double-entry bookkeeping system to ensure balance sheet accuracy shall be followed.
6. Code of accounts: Standardized chart of accounts to categorize transactions consistently shall be utilized.
7. Cash reconciliation: Daily reconciliation shall be made of cash on hand with the cash book balance.
8. Cash deposit limits: Maximum cash holding limits at branches and regular deposit procedures shall be established.
9. Cash handling procedures: Clear guidelines on handling cash transactions, including counting, verification, and recording shall be set up.
10. Regular updates: Timely posting of all transactions to the relevant general and subsidiary ledgers shall be strictly ensured.
11. Account reconciliation: Periodic reconciliation of all ledger balances with supporting documents and bank statements shall be made.
12. Suspense accounts: Proper management of suspense accounts for unresolved discrepancies shall be effected.
13. Financial statements: Accurate and timely financial statements including balance sheet, profit and loss account, and cash flow statement shall be prepared.
14. Management information reports: Regular reports on key performance indicators (KPIs) to monitor financial health shall be generated. The CBS shall monitor and generate reports regarding abnormal transactions in internal/office accounts and shall generate a list of internal/office accounts and their balances.

15. Budgetary control: Actual financial performance against the approved budget shall be compared.
16. Fraud prevention measures: Preventive controls to mitigate the risk of fraud, including fraud risk assessments shall be implemented.
17. Staff training: Regular training to accounting staff on internal control procedures and compliance requirements shall be provided.
18. Technology utilization: Accounting software to streamline processes and enhance accuracy shall be implemented. System based checks and control shall be implemented to prevent rooting of unauthorised or unrelated entries in the office accounts.
19. Cyber security: Robust data security measures to protect sensitive financial information shall be maintained.
20. Cash repayment of loans: Cash repayment of loans shall not be credited to banks internal/office accounts and shall be credited directly to borrowers loan accounts
21. Inactive accounts: Balances of KYC non-compliant inactive accounts shall not be parked in a separate internal account.
22. Regular review and updates: Periodic review and updating of the SOP to reflect changes in regulations, business operations, and technology shall be done. These guidelines ensure that banks have adequate internal controls and that they are properly recording and managing their transactions.
23. Internal control system: Banks should ensure that their branches follow the internal control system and submit periodical control returns.
24. Off-balance sheet transactions: Banks should ensure that branches properly record off-balance sheet transactions.
25. Inventory: Banks should maintain an inventory of dead stock and stationary, and subject it to surprise checks.
26. Internal inspection: Internal inspection reports should comment on irregularities and provide instructions for their resolution.
27. Periodic audits: Regular Risk Based Internal Audit (RBIA) by the designated persons to identify potential weaknesses and ensure compliance with policies shall be conducted. The internal audits shall include internal/office accounts also.
28. Suspense accounts: internal auditors should scrutinize suspense accounts and provide instructions for early reversal of entries.
29. The Board/Audit Committee of the Board shall oversight the operations of internal/office accounts.

Review

The Policy/SOP shall be reviewed by the BoD at least once in three years, or as and when felt necessary by the BoD.