



Bank of Zambia

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10 May 2000

C B Circular No.3/2000

To: All Commercial Banks

Dear Sirs

INTERBRANCH ACCOUNTING AND PROCEDURES

PURPOSE OF THE CIRCULAR

The Bank of Zambia is concerned about the large inter-branch figures that some banks are reporting in their balance sheets. The concern is that some banks could be reporting unrealistic figures, arising from unreconciled positions, and also wrong reporting in terms of presentations of assets and liability figures on the balance sheets, therefore presenting inflated positions in their balance sheets. Long outstanding inter-branch figures are also a major concern for the Bank of Zambia since these are a source of certain risks for the banks such as; errors and omissions, misappropriation of funds, unreconciled items, delay in effecting transfers resulting in loss to customers and counterparty, and distortion in banking statistics.

DRAFT CIRCULAR

A draft circular was circulated to all commercial banks through the Chairman Bankers Association for comments and observations. Having received comments from the Chairman, Bankers Association, the Bank of Zambia has decided to issue this circular immediately.

RECOMMENDATIONS

In view of the problems still in existence in inter branch accounting at some banks, and in an effort to improve inter branch accounting procedures generally, the following measures are recommended and required to be followed by all commercial banks. Banks are encouraged to take other additional remedial measures apart from the ones proposed here in order to improve their inter branch accounting systems.

Administration

Every bank must have in place adequate organisation arrangements at both the head office and branches to deal with the accounting and maintenance of inter branch accounts. There must be a reconciliation unit at head office, which should be adequately staffed to identify and resolve inter-branch outstanding transactions affecting both branches and head-office. The Chief Financial Officer of every bank shall every month take time to review the status of the inter branch accounts.

Branch Managers should take responsibility and initiate efforts to ensure that transactions which their branches are party to are resolved in accordance with this circular.

Inter branch systems operations

Aging Analysis Reports should be produced to assist the banks in recognising long outstanding entries for better administration.

All banks should develop written manuals for interbranch processing by July 2000.

Banks are encouraged to utilize e-mail facilities and other quick communication facilities in order to minimise delays in communications between branches and head offices.

Banks should maintain minimum number of interbranch accounts both at branches and head-offices.

Reconciliations at head office shall be conducted at least once a week as opposed to the current practice where some banks are doing this once a month.

Head Offices should communicate outstanding items reports to branches at least once a week. For large items over K100 million at least every two days.

PRUDENTIAL REQUIREMENTS

Banks will be required to submit to the Bank of Zambia, a detailed list of outstanding items once every month as per prescribed formats in schedules 10(a), 10(b) and 10(c). The Bank of Zambia will require that outstanding inter branch items are categorised as

follows: less than 30 days, 30 to 60 days, 61 to 180 days, 181 days to 365 days and over 365. Accordingly, banks will be required to carry out the following actions with regard to each of these categories of outstanding items.

Items which are less than 30 days old

Banks will be required to investigate such items and ensure that they are resolved before the next reporting month.

Items over 30 days but below 60 days

Banks are not expected to keep outstanding items for longer than 30 days. Consequently debit and credit items in this category shall attract a penalty of .50 percent. The Bank of Zambia will inform the concerned bank about the penalty and the same shall be recovered from the bank's current account at the Bank of Zambia.

Items over 61 days but below 180 days

All debit and credit items in this category shall be subjected to a penalty of .25 percent.

Items over 181 days but no more than 365 days

All debit items shall be provided for. Evidence of such provisions will be provided to the Bank of Zambia together with schedule 10(b). Proof will be in form of copies of entries involving the provisions.

Items which are over 365 days

All debit items in this category shall be written off and evidence of the write offs shall be provided to the Bank of Zambia together with schedule 10(b).

Banks may have policies for writing off inter branch items, which are more stringent than stipulated in the circular. In such cases, banks are encouraged to write off the items in accordance with their own more stringent policies.

There may be cases where banks have resolved items that have either been provided for or written off. In such cases, banks may wish to reverse the provisions and write offs, which had been made. The banks will be required to provide the Bank of Zambia with details on such reversals in schedule 10 (c). The Bank of Zambia inspectors will verify such reversals.

All banks are encouraged to develop real time systems for transaction processing as part of their IT projects. This will in the long term drastically reduce the inter branch figures.

REPORTING TO THE BANK OF ZAMBIA

Every bank will be required to submit to the Bank of Zambia on a monthly basis three inter branch schedules. Schedule 10 (a) will contain information on inter branch items according to an age analysis. Schedule 10(b) will contain information on inter branch items that have been written off or provided for. Schedule 10(c) will contain information on inter branch items that had been provided for or written off but have during the reporting period been reconciled.

These measures are effective from 31 May 2000.

A handwritten signature in dark ink, appearing to read 'DR Mwenda', is positioned above the printed name.

DR Abraham Mwenda
Deputy Governor-Operations