



## MEMO

**TO:** Property Agents  
**FROM:** Executive Officer  
**SUBJECT:** TRUST ACCOUNTS AUDITS – RECORDS, MONTH END RECONCILIATIONS AND SUPERVISION  
**DATE:** 20 June 2011

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Part 2 of the Regulations clearly sets out what trust records are to be maintained and how they are to be controlled.

**Regulation 6** specifically requires supervision to be exercised by managing real estate agents to ensure that such records are complete, accurate and evidenced by written and dated endorsement to that effect, within two days after making the monthly reconciliation. Good accounting practice requires that the preparer of the reconciliation likewise signs and dates as the trust accounting and reconciling records they have prepared are part of their employment responsibility.

Annual audits and inspections continue to identify many, including some serious, instances of inadequate accounting and follow up procedures. Furthermore, the written supervisory endorsements on month end reconciliations are being made without real and effective control. This allows readily identifiable errors, incomplete supporting information and inadequate control practices to continue even when they are raised in prior audits. Some errors or omissions will inevitably occur from time to time as no system is perfect. However adjustments correcting these entries need to be made promptly after discovery, as after all, the primary purpose of any reconciliation is to detect systems failures.

Completeness in regard to reconciliations requiring endorsement means that each figure, in the reconciliation at month end (computer rollover procedure), *must* be supported by printout/details of what it consists of and to whom the amounts relate. The opening cash book figures *must* agree with the closing cash book figure in the prior months' rolled over reconciliations, an issue which is not well managed by some agents.

Where holding, clearing or suspense type accounts are used for bonds, unrecognised deposits, buffer, or other purposes which includes isolating various problem causing entries, they must be controlled. The individual transactions remaining in each ledger account require identification with the date received and details of what they represent in each monthly reconciliation. They must then be balanced to the amounts held in the respective accounts. This may require a separate sub system to the main software package used. Just printing the monthly ledger account transactions is not sufficient as the individual entry details are lost in monthly carried forward balances.

Property Agents should ensure that they discuss with their auditor the results of the audit. Where regulatory breaches are found the agreed rectification is to be contained in the audit report. Furthermore, auditors *are* also required to report on breaches raised in prior audit reports, board inspections or specific reviews which have not been rectified and comment on explanations by the agents for non-compliance. Independent audit reporting obligations are clearly covered by the Act and Regulations. They are there to reinforce good commercial practice and ensure high standards in the handling of trust funds.

Most of the above matters have been raised in prior information bulletins and annual audit forms, including other information for auditors, all of which are contained on the Board's website. They have been summarised with the objective of improving the standards of trust funds accountability generally, which in some instances appear to have declined in recent years. This suggests inadequate staff training and insufficient control by the managing agents.