

# Control Procedures

## Bank Reconciliations, Receipts and Disbursements

*by John Allen, CA*

### Trust Bank Accounts - Control Features

Members are responsible for the financial operations of the firm even though many of the day-to-day functions may be delegated to staff. A number of internal control features can be put in place to provide some assurance that these functions are being performed properly and on a timely basis and to safeguard assets (particularly trust assets). Control features which may/should be implemented depend on a number of factors, the most important of which is the size of the firm and the number of different persons that may be involved in the firm's financial processes.

The following is a listing of control features that firms should consider in their financial operations and particularly in operating their trust accounts. Please note that the **procedures outlined are not intended to be all inclusive and all are not required by the rules**. It may also be necessary to implement further controls and processes depending on the circumstances.

#### I. Division of Duties among Individuals

The key here is not to give any one person complete control over a transaction from beginning to end. For instance, in regard to **disbursements**, the following duties should be performed by separate people if possible:

1. Cheque preparation and recording in accounting records. Blank cheques should be kept under lock and key and access limited only to those responsible for preparing cheques.
2. Cheque signing (at least one member must sign each trust cheque).
3. Bank reconciliation.
4. Receiving cancelled cheques and bank statements from the bank firstly and unopened.

In regard to **receipts**, the following duties should be separated:

1. Receipt and receipting of monies and recording of monies received in the accounting records.
2. Preparation of the bank deposit and deposit of funds.

3. Bank reconciliation.
4. Receipt of bank statements and cancelled cheques firstly and unopened from the bank.

If the firm does not have enough staff to divide the duties as outlined above, then points #1 and #3 for disbursements can be combined and points #1 and #2 (or even #1, #2 and #3) for receipts could be combined if required and be performed by the same person.

In the case of a two person office (one member and one staff), the staff member could perform #1, #2 and #3 (except for cheque signing which must be done by a member). In all cases, the member should obtain the bank statements and cancelled cheques directly from the bank (point #4) and examine them very carefully before giving them to the staff member to perform the bank reconciliation (**refer to Item IV below**). In a two person office, it is extremely important for the member to review bank reconciliations in detail (**refer to Item II below**).

It is also advisable to separate the receipts function from the disbursements function if possible.

## II. Review of Bank Reconciliations

When reviewing a trust bank reconciliation, the member should at a minimum:

1. Check that the bank balance according to the firm's accounting records (from the trial balance if available) equals the bank balance according to the bank records.

These balances will generally not be the same but after allowing for reconciling items (i.e. outstanding deposits and cheques), they must be. Outstanding deposits and cheques are simply those amounts that have been recorded in the books but have not yet been recorded as a deposit or a withdrawal by the bank (i.e. time lag).

2. Ensure that the bank balance used on the bank reconciliation is the same as the bank balance shown on the bank statement at the end of the accounting period.
3. Ensure that all Separate Interest Bearing Accounts (SIBA's) are included as part of the bank reconciliation process. These accounts must be recorded by the bank in the name of the law firm "in trust for client name".
4. Scan or add the bank reconciliation to provide some assurance that it has been added correctly.
5. Agree the total of the client trust listing to the reconciled bank balance and scan or add the listing to ensure it has been added correctly. Ensure all SIBA's are included as part of the client trust listing.

6. Review outstanding deposits to ensure the amount outstanding was received on the last day or two of the month. If not, investigate.
7. Review the outstanding cheque listing to ensure there are no stale-dated cheques (over six months old) on the listing. Pay particular attention to larger outstanding cheques particularly those that have remained uncashed for over a month. Are they legitimate?
8. Scrutinize any reconciling items shown on the bank reconciliation other than outstanding deposits or cheques. This may include things like bank errors, deposits to wrong accounts, etc. These items must be explained on the reconciliation, corrected each month and not be carried forward from the previous month.
9. Once the above steps are complete and any necessary corrective action taken, the member should sign and date the reconciliation. This process should be completed on or before the 20<sup>th</sup> of the month following.

### **III. Monthly Bank Reconciliation File**

A separate bank reconciliation file should be set up for each month and for each bank account. Each file should include copies of the following where applicable:

1. Bank Reconciliation.
2. Outstanding Cheque Listing.
3. Outstanding Deposit Listing.
4. Client Trust Listing.
5. Bank Statement.

### **IV. Subsequent Review**

The member should receive all bank statements and cancelled cheques directly and unopened from the bank each month. When this package is received, the member should:

- (a) Examine the bank statement and each cheque very carefully with a view to ensuring all monies received have been deposited.
- (b) In regards to receipts, ensure:
  - Bank deposits are made "intact" daily (check sample of receipts to deposits to ensure all monies received are deposited) and all withdrawals

are legitimate. Compare deposit slip information to the accounting records.

- A bank validated deposit slip is retained. The slip should separate cash and cheque components.

(c) For payments, the reviewer should:

- Pay particular attention to expenditures that may indicate payment of personal obligations by an employee (ie. cheques to banks or credit card companies to pay loans or accounts). Cheques to financial institutions should always be scrutinized, as funds can be diverted in numerous ways.
- Check for altered payees and/or amounts.
- Check that the endorsement on the cheque matches the payee and has not been altered.
- Look for any cheques payable to “cash” and investigate. Trust cheques can never be made payable to “cash.”

*Note:* many checks can be made on a “random sample” basis only. It is not practical or necessary to do a 100% check of all transactions.

(d) Ensure that all/any outstanding deposit(s) shown on the bank reconciliation for the previous month is deposited early in the month according to the bank statement (first day or two).

(e) Ensure that each cheque dated in the previous month and cashed and returned by the bank (cancelled cheques) is included in the outstanding cheque list on the bank reconciliation for the previous month.

Once this has been done, the member may give the bank statement and cancelled cheques to the staff member who will be preparing the formal reconciliation. If a person totally independent from other financial tasks listed performs the bank reconciliation, the member may feel confident in allowing that person to obtain the cancelled and bank statements directly from the bank.

After a couple of months of practice, the procedures described above will take less than five minutes for most bank accounts but will provide significant assurance that trust reconciliations are accurate and up to date.

## **V. Additional Controls**

- When ordering cheques, make sure that they are pre-numbered in sequence.
- Once blank cheques are received from the printer, ensure they are used in sequence and there are no gaps in the sequence of unused cheques – particularly at the end of a sequence.
- Ensure that all blank cheque stock is under “lock and key” and accessible only to employees requiring access.
- Retain and cancel any/all ruined cheques.