



LAW FIRM BOOKKEEPING - BEST PRACTICES & KEY RULES

To manage the risk of fraud and error related to law office monies and reduce/prevent complaints.

1. Create checklists

- Weekly/monthly/annual checklists for accounting and other administrative tasks
- Client file checklists for each file (i.e., real estate file checklist, estate file checklist, etc.)

2. Restrict number of trust and general bank accounts

- Attempt to limit office bank accounts to one trust and one general bank account
- Additional bank accounts will only increase the administrative burden for staff

3. Colour code cheques and deposit slips

- Order trust account supplies including trust deposit slips and trust cheques in a distinct colour from the general account and from other trust accounts
- This will help to reduce errors related to depositing and disbursing funds to/from the wrong bank account

4. Document errors/discrepancies as soon as possible

- For example, if the bank mistakenly deposits monies to trust and then corrects the mistake by recording a “debit memo” to subsequently withdraw funds, ensure that error is fully explained and documented and supporting documentation attached.
- This helps to create an audit trail in case the transaction is questioned at a later date.

5. Maintain small firm float in trust, if possible

- Deposit into trust a small amount of funds from the office general account to cover small, unexpected bank charges to prevent a trust shortage
- Float amount limited to \$300 per trust bank account - Rule 1505(4)

6. Segregate Duties, where possible

- Internal control that involves having more than one person complete a task in order to prevent fraud and error (e.g., staff that opens mail is separate from staff that performs accounting duties)

7. Receipt of Monies

- Ensure compliance with client ID and verification rules – Rules 1541-1549
- Stamp each cheque received with a restrictive endorsement such as “For Deposit Only”
- Ensure monies are deposited in a timely manner to the relevant bank account, i.e., trust monies must be deposited within three business days – Rule 1504(1)
- Ensure that form of monies received is recorded (i.e., cheque, cash, wire transfer, etc.) – Rule 1519(a)(i)
- Ensure that cash received on any one legal matter does not exceed \$7,500 (refer to Rule 1503(4) for limited exceptions). Note the \$7,500 is over the life of the matter.



(Receipt of Monies - continued)

- Duplicate receipt must be issued and signed by both the firm staff receiving the cash and the person from whom cash is received for any cash received – Rule 1503(7)
- Any refund of trust monies paid in cash received for legal fees must be paid out in cash and acknowledgement signed by the person receiving the cash retained – Rule 1503(5)
- Consider obtaining a void cheque from client. This will be useful if there remains a small balance in trust owing to client but firm is having difficulty returning funds. Void cheque will have client's bank account # which can be used to deposit trust cheque directly to client's bank account.

8. Disbursement of Trust Monies

- Withdrawals from trust may only be done by cheque or wire transfer – Rule 1514
- Note the file number or client reference in the memo line on the face of the cheque or on retained cheque stubs – Rule 1514(1)(c)
- Member signing cheque should review relevant individual client trust ledger to ensure payment is appropriate and sufficient funds are available
- Member must be satisfied that deposited trust funds have cleared the bank prior to disbursement of funds.
- Follow up with clients/payees once a trust/general cheque has remained outstanding for more than 3 months. Typically, client has either lost cheque or does not realize there was a cheque in amongst their legal documents and only once your staff contacts them do they know to deposit cheque. This will save your office time down the road.
- Keep blank cheques in a locked and secure location
- Trust cheques can only be signed by a member once all fields are populated, i.e., blank trust cheques must not be pre-signed.
- Ensure fees and disbursements are only paid from trust once they have been earned/incurred and only after invoice has been prepared and delivered to client.

9. Include accounting/balance of monies being held in trust for client on each invoice

- Complaints have arisen where a client accuses their lawyer of misappropriating their trust monies when this was not the case. Client has simply forgotten about an invoice or two previously paid from trust monies.
- Once a complaint such as this is filed an investigation by our office is required.
- Including an accounting of trust monies with current balance on each invoice will help to regularly inform the client of their balance and clear up any misunderstandings early on to avoid a complaint.

10. Discuss fees and anticipated disbursements with client at the start of the matter and provide client with regular/timely invoices

- Some clients are not aware of how fees are calculated or simply underestimate the costs
- This can lead to some unpleasant “surprises” for the client which can result in complaints to our office which could have easily been avoided
- This is especially important for files which are expected to span more than a year (i.e., family law files)
- Consider providing clients with current billing information at least every six months (include both fees and disbursements incurred to date). The billing information provided can be in the form of an invoice or simply a detailed WIP report.