

Robert Atanasov



Audit of trust accounts

Trust accounts are an essential component of many businesses and have a statutory requirement for annual audit.

Most IPA members in public practice will come across the need for a trust account audit at some stage, either for their clients or for their own practice's trust account. These are some of the more common types of trust account audits and related audit requirements.

Real estate and business agents/brokers trust account audits

In NSW, the legal requirement for the audit of real estate trust accounts is legislated by the *Property Stock and Business Agents Act 2002* and Regulations. The licensing and compliance checking is administered by the NSW Office of Fair Trading. In other states and territories, similar legislation exists and government departments administer the licensing of agents.

Real estate and business agents must use an external registered company auditor to examine the records associated with the trust account. The auditor will express an opinion as to whether these records have been kept in accordance with the requirements of the relevant legislation. It is prudent to check that the accountant signing

the audit report is a registered auditor, and the quickest way to find out is to check this on the ASIC website.

There are serious penalties for the licensee-in-charge if they fail to carry out an annual trust account audit. The fact that they may have been busy is no excuse. The legal requirements are clear and are not subject to the pressures of business. It will be less of a hassle if there are already good systems in place and accounts and receipts are well organised.

If the licensee-in-charge does not meet this statutory requirement, it may result in one or more of the following:

- monetary penalties
- suspension of licence
- imposition of conditions on the use of the licence
- cancellation of the licence and disqualifying the licensee from obtaining another licence in the future.

An annual audit of the trust account can also help to detect fraud and misappropriation of funds before matters get completely out of hand. If it turns out that an employee has been stealing but the licensee hasn't carried out the required annual trust account audit, their professional indemnity insurance coverage may be in jeopardy.

Audit checklists are available from a number of websites, including the NSW Office of Fair Trading and Western Australia's Real Estate and Business Agents' Supervisory Board. A checklist will assist the person responsible for the real estate agency's trust account in preparing the required information ready for the audit as well as guide the auditor on the required process and documentation.

In most states and territories, the balance date is 30 June, and the timeframe for lodging the audit statement is quite short.

Audit of accountants' and liquidators' trust accounts

These trust accounts have a 31 March year-end. At the time of writing, the current standard that governs these trust accounts is APS 10 *Trust Accounts* and GN 3 *Operation of Trust Accounts*. As of 1 July 2011, these standards are superseded by APES 310 *Dealing with Client Monies*, although early adoption of APES 310 for trust account audits for the year ended 31 March 2011 was possible. APES 310 applies to members of all three professional accounting associations.

As with any audits, it is recommended that the auditor have a signed audit engagement letter with the firm whose trust account is being audited prior to commencement of the audit.

Solicitor trust account audits

The audit year for solicitor trust accounts – also called an

Becoming an auditor

1 Auditing and assurance standards that need to be applied by IPA members can be viewed on the Auditing and Assurance Standards Board web site at www.auasb.gov.au.

2 Members can get full details about becoming a registered company auditor on the ASIC website.

3 If you would like to obtain a pro forma checklist for the audit of an accountant's/liquidator's trust account, contact Robert Atanasov at Robert@atanasov.com.au.



external examination – varies from state to state. The oversight of this area is carried out by the state’s professional law body, generally the Law Society, which can provide a list of qualified examiners and a checklist for the examination. There are plans to merge the state bodies and have one federal body overseeing solicitors throughout Australia.

Generally speaking, steps for appointing an external examiner for a law firm’s trust account include checking that the person you intend to engage is on the Law Society’s list of external examiners. The external examiner should provide an engagement letter, which spells out the terms of the engagement and either a fixed fee or an hourly rate quote.

This letter needs to be signed by both the external examiner and a principal of the law firm. The required forms should be completed and submitted to the appropriate authority.

Minimise business disruption

The best preparation for anyone requiring audit of their trust accounts is to ensure the accounts are properly maintained all year round. That way the annual audit will take minimal time with minimal fuss and the least disruption to normal business. To help achieve this:

- check with the software provider that the latest version of the trust account software is being run

- all monthly bank reconciliations and trial balance for all trust accounts should be reviewed. These should be checked monthly by the principal after being completed by the in-house accountant/bookkeeper. It is imperative that trust trial balances are prepared and signed within 21 days from the end of the month.
- records should be kept contemporaneously – transactions should be recorded daily so the records are completely up-to-date
- ensure that no bank charges are being incurred by the trust account – the bank should charge account-keeping fees etc. on the trust account(s) to the business’s general account

There are serious penalties for the licensee-in-charge if they fail to carry out an annual trust account audit.

- ensure that the trust bank account(s) does not go into debit (overdraft) at any stage during the year. ▀

Robert Atanasov FIPA is a registered company auditor with some 15 years’ experience in auditing trust accounts and various other entities. He can be contacted on (02) 9588 2055 or 0403 472 544.



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