

Internal Controls: Strengthening Trust Account Administration

Purpose: This bulletin addresses internal controls that brokerages should implement when they receive or hold trust funds on behalf of their clients. While the recommendations are not exhaustive, they are provided to complement existing requirements under the *Real Estate Act* and *Real Estate Act Rules* and any other controls the brokerage requires to safeguard the monies they hold in trust.

This bulletin applies to all real estate, property management, condominium management and mortgage brokerages.

Why Strong Internal Controls is Important

- To minimize the risk of errors, fraud, or commingling.
- To build trust with clients, improve audit readiness, and enhance brokerage reputation.
- To support compliance with statutory requirements for trust accounts.

Recommended Key Controls

- Accurate Record-Keeping, including detailed documentation of deposits, withdrawals, transfers, and any interest earned on client funds. Accurate record-keeping is crucial for accountability and transparency.
- Separation of Duties: As much as practicable, ensure that there is clear separation of duties for trust fund administration process e.g. the person depositing the funds should not be same making the accounting entries and bank reconciliations.
- Deposit and Disbursement of trust funds must be in accordance with the terms guiding the trust arrangement.
- Receipts must be issued for all cash deposits and should be signed by the payer and brokerage representative. A copy of each receipt must be retained by the brokerage.

- The account must be clearly designated as a trust account, and all cheques and bank statements must include the word “trust”.
- All transfers out of the trust account must be supported by written documentation, signed and dated by the broker or an authorized person on the date of the transfer or next business day.
- Trust cheques must be sequentially numbered, accounted for and kept in a secure location.
- Set threshold amounts requiring the appropriate level of authority for approval.
- Prohibit signing of blank cheques
- Ensure only authorized individuals have online access to the trust bank accounts.
- All payments requests must be supported by documentation and reviewed for accuracy before approval.
- Maintain a sub-ledger for each client and ensure there’s sufficient description for each transaction.
- Monthly bank reconciliations must be reviewed and signed by the broker or delegate within 30 days of the prior month’s bank statement date.
- Broker or delegate must ensure that bank reconciliations are carefully reviewed, and any reconciling items are supported by adequate documentation and cleared promptly.
- For pooled trust accounts, you must include a liability listing (a summary breakdown of the individual balances for each client) as part of the bank reconciliation process.

Related information

Legislation

- *Real Estate Act*: s.25(1)(a)(b)(c), s.25(2), s.25(3), s.69(2)
- *Real Estate Act Rules*: s.41, s.52, s.91, s.95, s.96, s.97