QLD LEGAL FINANCE

QUICK ANSWER · TRUST ACCOUNTING

The trust reconciliation balances — *but is it actually clean?*

A nil difference is necessary and not sufficient. What else has to be true before a principal signs it.

VERSION 2.0 · SEPTEMBER 2026

QLD Legal Finance Pty Ltd

ABN 44 697 013 906 · ACN 697 013 906
PO Box 25, Bald Hills QLD 4036 · 07 3261 2833 · enquiries@qldlf.com.au · qldlf.com.au

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A nil reconciliation difference is necessary. It is not the same thing as a clean trust environment.

Section 44(3)(a) of the Legal Profession Regulation 2017 (Qld) requires the two statements to be prepared within 15 working days after the end of the month concerned. The bank balance must reconcile to the cash books, and the individual trust ledger balances must reconcile to the cash books.

Those equations can balance while old, unexplained or poorly controlled items are still sitting inside the reconciliation.

> **QLF PERSPECTIVE**
> A reconciliation proves arithmetic agreement. A clean reconciliation also explains the exceptions.

1. Start with the two required reconciliations

At month end, the practice must reconcile:

- the approved ADI balance to the trust account cash book; and
- the total of the individual trust ledger balances to the trust account cash book.

The trust trial balance should consist of individual client ledgers that carry credit balances, and the resulting variance to the reconciled cash book should be nil.

> **CONTROL QUESTION**
> Do both sides reconcile independently, or is the practice relying on one report that happens to show the same total?

2. A reconciling item should have a reason

The bank reconciliation can legitimately contain timing differences and other reconciling items.

What matters is whether every item is understandable and supported.

Examples include:

- unpresented trust cheques;
- direct deposits not yet receipted because they were not known at month end;
- outstanding deposits or receipts;
- approved ADI errors awaiting reversal.

> **RED FLAG**
> An adjustment has appeared for several months and the explanation is simply 'reconciling item'.

3. Age matters

An item that was reasonable last month may be a control problem this month.

A clean review should consider how long each exception has been outstanding and whether the age is consistent with its explanation.

For example, QLS says unpresented trust cheques should generally not remain outstanding for more than three months without investigation and communication with the payee.

> **QLF PERSPECTIVE**
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> A reconciliation item should either clear, be investigated, or be escalated. It should not simply become part of the furniture.

4. Check for unidentified or late direct deposits

A bank credit can exist at month end before the practice has identified and receipted it.

QLS provides for that situation through an adjustment on the approved ADI reconciliation until the source is established and the receipt is properly recorded.

The review question is whether the item is genuinely under investigation and whether the accounting treatment preserves the original receipt date when the deposit is later identified.

> **RED FLAG**
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> Direct deposits remain on the reconciliation because nobody owns the task of identifying them.

5. Look beyond the final balance to the ledger listing

The trust trial balance is not just a number that must equal the cash book.

It is also an exception report in disguise.

The reviewer should look for:

- debit ledger balances;
- dormant or stagnant balances;
- unusually large balances;
- old balances on closed or largely completed matters;
- matter descriptions that do not explain why funds are still held.

> **DIRECTOR QUESTION**
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> What in this ledger listing deserves an explanation even though the total reconciles?

6. Confirm all month transactions have actually been posted

QLS's reconciliation procedure begins with ensuring that the month's transactions have been entered in the cash books and posted to the trust ledger.

A reconciliation can be misleading if the underlying records are incomplete.

The preparer should therefore confirm that receipts, payments, journals and known bank movements have been captured before treating the month as closed.

> **GOOD CONTROL**
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> Complete the accounting first; reconcile second. Do not use the reconciliation itself as a substitute for complete posting.

7. Make the review visible

This is not a recommendation. Section 44(3) requires the statements to be reviewed by *a principal of the law practice*, annotated in a way that evidences the completion of the review, and kept. A review by a competent manager who is not a principal does not satisfy it, and an unannotated review is a breach in its own right — which is why it is one of the first things an external examiner tests.

The review should therefore leave more than a signature.

Where exceptions exist, the evidence should show that the reviewer understood them, challenged them where necessary and knew who was responsible for resolution.

> **QLF PERSPECTIVE**
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> A principal's sign-off has real value only if the pack presents the exceptions clearly enough to review.

The clean-reconciliation test

REVIEW POINT	WHAT 'CLEAN' LOOKS LIKE
☐ 1. Bank to cash book	Reconciles to nil variance
☐ 2. Ledgers to cash book	Reconciles to nil variance
☐ 3. Reconciling items	Each item is identifiable and supported
☐ 4. Ageing	Old items have investigation and next action
☐ 5. Ledger exceptions	No unexplained debit, dormant or unusual balances
☐ 6. Posting completeness	All known month transactions are recorded
☐ 7. Review evidence	Principal/reviewer sign-off and exception follow-up are documented

Do not use the 15-working-day deadline as the target

Section 44(3)(a) sets the outer limit at 15 working days after month end. Completing it sooner, and reconciling more often than monthly where volumes justify it, is a QLD Legal Finance recommendation rather than a requirement — but the shorter the gap, the smaller the population of transactions anyone has to reconstruct when something is wrong.

That is an important control distinction. The statutory timeframe is the outer limit, not necessarily the operating standard a well-controlled practice should aim for.

> **DIRECTOR QUESTION**
> If there was an error on the first day of the month, how long would it take the practice to discover it?

What should the principal see?

A principal should not need to read every line of every trust report to understand the month.

The review pack should make the important exceptions obvious:

- reconciliation variances, if any;
- aged unpresented cheques;
- unidentified deposits;
- ADI errors awaiting correction;
- debit-ledger events;
- dormant balances requiring action;

- any unusual or material trust transactions.

A balanced reconciliation should be the starting point of the review — not the end of it.

WHAT MUST BE ON THE STATEMENTS

Section 44(2) prescribes content as well as arithmetic, and two requirements are commonly missing from otherwise clean packs. Each statement must show **the date it was prepared**. And the trial-balance statement must include a list of the practice's trust ledger accounts showing, for each, the **name**, the **identifying reference**, the **balance** and a **short description of the matter**. A listing without identifying references or matter descriptions can balance perfectly and still fail section 44 — and the matter description is the field that makes the next question, why is this money still here, answerable at all.

OLD BALANCES HAVE A STATUTORY ENDPOINT

Dormant balances are not only untidy. Under sections 258(1)(c) and 713 of the Act, trust money held at **1 April** for someone who has been absolutely entitled for the preceding twelve months and who is not known to, or cannot be found by, the practice must be the subject of a return to the Public Trustee by **1 June** that year. The maximum penalty is 50 penalty units. When a balance on the trial balance triggers that description, it has moved from housekeeping to a deadline.

Where QLD Legal Finance fits

QLD Legal Finance can prepare the monthly trust reconciliations, maintain the supporting month-end records, investigate reconciling items and present the principal with a concise exception-based review pack.

The law practice remains responsible for its trust-account obligations and principal oversight.

QLF PERSPECTIVE

The objective is not to produce a reconciliation that balances. It is to produce a month-end position the principal can understand and rely upon.

Important information

This guide is general information only and is not legal advice.

Law practices should refer to section 44 of the Legal Profession Regulation 2017 (Qld) and current Queensland Law Society guidance when preparing and reviewing monthly trust reconciliations.

Section 44 of the Legal Profession Regulation 2017 (Qld) requires two reconciliation statements as at the end of each named month, prepared within 15 working days after the end of the month, reviewed by a principal, annotated to evidence the review and kept. The Queensland Law Society Trust Accounting Guide restates those requirements and adds practical guidance.

The clean-reconciliation test in this guide is a QLD Legal Finance operational control framework. It is not a separate statutory checklist issued by Queensland Law Society.

QLD Legal Finance supports Queensland law practices with trust accounting, financial control and advisory services. It is not affiliated with or endorsed by Queensland Law Society.

Source basis

Prepared by reference to Queensland Law Society, Trust Accounting Guide — Trust Money and Trust Accounts, Version 12, April 2024, including the sections dealing with trust account reconciliations, individual trust ledger listings and approved ADI reconciliation statements.

WHERE THIS CAME FROM

This guide is part of the QLD Legal Finance resource library — practical material written for the people who run Queensland law practices, not for other accountants. If something here raises a question about your own firm, write to **enquiries@qldlf.com.au** or call **07 3261 2833**. A director will answer personally.

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