QLD LEGAL FINANCE

FIELD GUIDE · TRUST ACCOUNTING

Trust accounting for Queensland law firms — *what a director must know.*

The full handbook for a partner who became responsible for a trust account without being trained for it. Plain English. No marketing.

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For a law practice director, the central trust-accounting question is not whether transactions are being processed. It is whether the practice can demonstrate, at any point, that the trust position is accurate, supported and under control.

That requires more than a reconciled bank balance. It requires a control environment that can explain whose money is held, why it moved, what authority supported the movement, what exceptions remain unresolved and who is accountable for addressing them.

Delegation is entirely appropriate. Loss of visibility is not.

At any point, the practice should be able to answer questions such as:

- What trust money are we holding?
- Does the bank agree to the accounting records?
- Do the individual client ledgers agree to the cash book?
- Are any trust ledgers in debit?
- Are there unresolved reconciling items?
- Who can move money from the trust account?
- What authority supports each payment?
- Is there anything requiring escalation?

Queensland Law Society describes trust accounting as the recording of the receipt and payment of other people's money, with individual accounting records maintained for the person on whose behalf the money is held. The legislation also requires trust records to disclose the true position and to be capable of convenient investigation or external examination.

That is the perspective of this guide.

It is not about teaching directors to become trust bookkeepers.

It is about helping them remain in control of the trust accounting function.

1. Trust accounting is not ordinary bookkeeping

Trust accounting should be treated as a control system, not an extension of ordinary bookkeeping.

- money has been allocated to the wrong client;
- a matter has been paid using funds belonging to another client;
- money has been released without sufficient authority;
- the records no longer reflect the actual position;
- a deficiency has arisen;
- an irregularity may require further action.

Can the practice demonstrate what happened, why it happened, whose money was involved, what authority existed and whether the remaining balance is correct?

IN PRACTICE

The strongest trust accounting systems rely on evidence rather than memory. A principal should not need to find the employee who processed a transaction three months ago to understand what happened. The trust records and supporting documentation should tell the story.

2. Delegation does not eliminate oversight

The risk begins when delegation becomes invisibility.

A director who simply receives a reconciliation marked “complete” every month is not necessarily exercising meaningful oversight.

The monthly reconciliation must itself be reviewed by a principal and annotated in a way that evidences that review.

The useful question is therefore not merely: Was the reconciliation reviewed?

It is: What did the reviewer actually look for?

At a minimum, a director should know when the latest reconciliation was completed, whether the bank, cash book and trust ledgers agree, whether any trust ledger is in debit, whether there are aged or unexplained reconciling items, whether unidentified deposits remain unresolved, whether unusual adjustments were required, and whether any irregularity has been identified.

An uncertain answer is not necessarily a compliance breach, but it is a control finding.

DIRECTOR QUESTION

If the person who usually manages the trust records was unexpectedly unavailable tomorrow, could someone else establish the current trust position from the records alone? If not, too much of the system may sit with an individual rather than within the process.

3. Know what kind of money you are dealing with

Classification determines the accounting treatment and record set that follows.

The QLS Trust Accounting Guide distinguishes between different categories including trust account money, controlled money, transit money, written-direction money, power money and investment money.

Classification should happen when the money is received or the arrangement is established — not months later when somebody is preparing the reconciliation or external examination files.

GOOD CONTROL

Build the classification decision into the receipt process. The person first dealing with the money should know which transactions fall outside the normal workflow and require escalation.

4. The bank, the practice and QLS should tell the same story

A compliant law practice trust account must satisfy four cumulative conditions under section 33(3) of the Regulation: it is established in Queensland with an approved ADI; it is kept in Queensland; it is of a kind the Society has approved; and its name includes the practice's name or business name together with the words “law practice trust account” or “law practice trust a/c”. Note where each approval comes from — the ADI is approved by the chief executive under section 280 of the Act, while it is the *kind of account* that the Society approves. Ask the bank to confirm the product is on the Society's approved list before opening it. QLS also states that charges associated with the trust account should be directed to the office or general account rather than reduce trust money.

But one of the most important operational issues begins after the account is established: who can actually move the money?

Authorised people must have the appropriate level of banking authority, and online banking authority should reflect whether someone is authorised to act solely or jointly.

Three sources should therefore remain aligned: the practice’s internal authority records, the banking platform, and the information provided to QLS.

A person leaving the practice, changing roles or ceasing to have trust authority should not remain in the banking system indefinitely because removing access is inconvenient.

> **RED FLAG**
> A former staff member or practitioner remains an authorised trust bank user because “They don’t work here anymore, so it doesn’t matter.” It does matter. System access should reflect current authority.

> **THE NOTICE PEOPLE MISS**
> Section 46 of the Regulation sets two duties, not one. Written notice must reach the Society either before, or within **14 days** after, an authorisation event — someone becoming, or ceasing to be, authorised to sign trust cheques or otherwise effect, direct or authorise withdrawals. Separately, during **July each year** the practice must give written notice of everyone authorised as at 1 July. That July notice is not required if the external examiner’s report for the period ending that 31 March has already been given to the Society under section 274 of the Act.

5. Receipting is the first major control point

Sections 34 and 35 of the Regulation require trust receipts to contain prescribed particulars including the receipt date, date received where different, amount, form of money, payer, client, matter, purpose, law practice details, issuer and receipt number.

The quality of the source record determines how readily the transaction can later be understood and tested.

A receipt description such as “Funds received” may tell the reader that money arrived. It does not tell them much else.

Better descriptions explain why the money exists: settlement proceeds, costs in advance, stamp duty, counsel's fees, expert report, balance purchase funds, or a distribution received from another trust account.

QLS recommends that trust receipts be fully informative and that different purposes be separately identified where money is received for several proposed payments.

> **IN PRACTICE**
> If a reviewer has to open the client file every time they read a trust receipt to work out what the money was for, the accounting description is probably not doing enough work.

6. The receipt date and the date the money arrived may differ

Direct deposits can create a timing difference between bank receipt and accounting recognition.

Where the receipt is issued after the money was received, the records should transparently show the actual date of issue and the date the money was received where different.

7. Unknown deposits need a process — not somewhere to hide them

Unidentified deposits are an exception-management issue, not merely a receipting inconvenience.

QLS describes unknown deposits as a common occurrence. Its guidance is that the amount remain visible on the reconciliation while enquiries and tracing occur. Where the funds remain unidentified, QLS describes the use of an individual trust ledger for that separate unidentified transaction rather than an amalgamated suspense ledger.

The broader lesson is:

Unexplained money should remain visible until it is explained.

> **DIRECTOR QUESTION**
> How much unidentified trust money is currently unresolved, and how old is the oldest item? That should not be a difficult question to answer.

8. Never pay against money you have not established is available

QLS identifies risks including drawing against uncleared funds, money being credited to the wrong account, recording the wrong amount, and relying on fraudulent or incorrect advice that money has been received.

Before release, the practice should establish cleared funds in the correct account, correct matter allocation and sufficient balance on the relevant client ledger.

RED FLAG

“There’s plenty of money in trust.” The relevant question is: “Does this client’s ledger hold sufficient cleared funds for this payment?”

9. Preparation and authorisation are different functions

QLS permits finance and administration staff to have read-only trust banking access for checking transactions and printing statements. It also stresses individual user credentials, appropriate authority settings and multi-factor authentication.

The control objective is meaningful separation between preparation and authorisation.

One person may prepare the transaction, enter the accounting information and assemble the supporting documentation.

An appropriately authorised person then reviews the payment, confirms the supporting authority, checks the payee information and releases the payment.

The weakest configuration is one person who can create the payee, enter the payment, authorise it, release it, record it, and reconcile it afterwards.

That person controls the entire transaction lifecycle.

GOOD CONTROL

The second person in the payment process should not simply be pressing Approve. They should be performing an actual review.

10. EFT records should allow the payment to be reconstructed

Required particulars include the date and reference, amount, account details where applicable, payee, client, matter, ledger and purpose.

Those records must also be retained in transfer order.

Someone reviewing the payment later should be able to identify who was paid, how much was paid, why they were paid, which client and matter it related to, which ledger was debited, when it happened, and what authority supported it.

If that information requires reconstruction from several people’s memories, the payment record is too weak.

11. Modern payment methods do not remove the record-keeping obligation

The QLS EFT Guidelines address payment methods including BPAY, PayID and PayTo where the relevant requirements and exemptions apply.

For example, QLS requires relevant identifying information to be retained for these payment types, with supporting evidence such as BPAY invoice information or PayTo confirmation records. For PayID payments, authenticity of the identifier must also be verified.

The control principle is unchanged: convenience does not remove the need for a compliant, reconstructable accounting trail.

12. Bank-detail verification is part of trust control

Fraudulent substitution of bank details is a payment-control risk that warrants an explicit verification protocol.

QLS reminds law practices to verbally verify payment details before making trust payments.

A robust verification process should leave evidence of who performed the verification, when it occurred, who was contacted and which details were confirmed.

> **IN PRACTICE**
> A change in payment details should increase scrutiny. It should not simply result in someone replacing the old BSB and account number in the system.

13. Trust-to-office transfers need their own discipline

QLS identifies several pathways for withdrawing legal costs from trust, including withdrawal after a bill and satisfaction of the applicable requirements, withdrawal under a compliant costs agreement or instructions, reimbursement of money already paid, or an appropriate combination.

Where a costs agreement or instruction is relied upon, QLS also describes associated request-for-payment or notice requirements.

Before each trust-to-office transfer, three questions should be answerable immediately:

1. What withdrawal basis are we relying on?
2. What document supports it?
3. Has the required process occurred?

If those answers are unclear, the payment should not proceed until the position is established.

> **RED FLAG**
> “That is how we always transfer our costs.” Historical practice is not evidence of authority for the particular transaction.

14. The monthly reconciliation is the centre of the trust control system

Section 44 of the Regulation requires reconciliation within 15 working days of each month end, reconciling the trust bank account to the cash book and the trust ledger balances to the cash book.

The reconciliation and trust trial balance must show when they were prepared, be retained, and be reviewed by a principal with evidence of that review.

Bank → Cash Book → Individual Client Ledgers

But good review goes further than checking whether the final variance is nil. A principal should look at what had to be adjusted or listed to get there, including outstanding deposits, unpresented cheques, unidentified deposits, transactions appearing in the bank but not in the accounting records, unusual adjustments, debit ledger balances and aged reconciling items.

> **DIRECTOR QUESTION**
>
> Do not only ask: “Does it balance?” Ask: “What remains outstanding, how old is it, and what are we doing about it?” A reconciliation can mathematically balance and still contain issues requiring attention.

15. Old reconciling items tell you something

QLS says outstanding deposits should generally only represent money received at the end of the month and banked promptly thereafter. Other circumstances may require immediate investigation.

QLS also recommends that unpresented trust cheques generally not remain outstanding for more than three months without investigation and communication with the payee.

Every material outstanding item should have a date, explanation, owner, action and expected resolution.

That turns the reconciliation into a control tool rather than merely a balancing exercise.

16. A debit trust ledger is not something to clean up later

The monthly trust ledger listing should consist of credit balances.

A debit client trust ledger means the records show more money being applied to that matter than the client had available.

QLS separately addresses deficiencies and irregularities and the associated reporting obligations that may arise.

The practice should establish what created the debit, whether funds belonging to another client have effectively been used, whether there is a deficiency, what corrective action is required, and whether notification obligations arise.

RED FLAG

"It is just a timing issue." Possibly. But the cause needs to be established before that conclusion is accepted.

17. Dormant trust balances need active management

QLS describes dormant balances as trust balances that have not changed for more than 12 months and encourages firms to regularly review them and take appropriate steps to disburse funds.

These balances may arise because a legal matter ended but the financial matter was never fully closed, a cheque was never presented, a beneficiary cannot be located, a small residual balance was overlooked, or money was retained for a disbursement that never occurred.

Age is a management signal, not a change in entitlement.

IN PRACTICE

Age does not turn client money into firm money. Dormant balances should sit on an active review list rather than disappear into the background.

18. Trust statements are part of the control environment

QLS describes trust account statements as providing the person on whose behalf money is held with the accounting history and current balance for the relevant matter.

Statements are generally required in prescribed circumstances including after completion of the matter, following a reasonable request during the matter, and after 30 June each year subject to the relevant exemptions.

This is another reason trust ledger descriptions should be intelligible outside the finance team.

The ledger should make sense to somebody other than the person who entered the transaction.

19. Record keeping is about reconstructing the transaction

Section 59 of the Regulation requires a broad range of trust records to be retained for seven years, including receipts, payment authorities, bank statements, cash books, ledgers, trial balances, reconciliations, journals, statements, registers and written directions.

Depending on the record, the retention period is generally seven years from the applicable transaction or matter finalisation point.

But a useful internal standard goes beyond simply asking: "Do we have the document?"

Ask: "Could someone who was not involved in this transaction understand what happened?"

A folder full of documents is not necessarily a good audit trail.

A coherent transaction history should identify the parties, matter, purpose, amount, authority, timing, approval and accounting treatment without reconstructing the event from memory.

- client;
- amount;

20. Your software is not your compliance function

QLS specifically notes that it does not assess computerised trust accounting systems for compliance and recommends that practices satisfy themselves regarding their software.

Relevant system requirements include controls around month-end records, audit trails, debit trust ledgers, deletion of ledger accounts, transaction amendment, required data fields and backups.

But software cannot determine whether an instruction is genuine, the wrong client has been selected, money has been misclassified, bank details have been fraudulently substituted, the supporting authority is appropriate, or a dormant balance has been forgotten.

> **QLF PERSPECTIVE**
> Good software supports good trust accounting. It does not create it. The quality of the environment still depends on the people, processes and review surrounding the system.

21. External examination should test the system — not rebuild it

External examination is an independent test of the trust records; it should not be the mechanism by which the practice creates or repairs them.

For practices subject to annual external examination, the relevant financial period ends on 31 March and the report is generally required within 60 days thereafter.

If the monthly control environment is functioning, the reconciliation trail, supporting authorities, exception records and access information should already be examination-ready.

> **RED FLAG**
> “We will clean everything up before the examiner arrives.” If substantial reconstruction is required every year, the problem is not the external examination. The problem is the monthly process.

22. Irregularities need a response process before one occurs

The QLS Guide states that written notice must be given as soon as practicable after a legal practitioner associate becomes aware of an irregularity in the practice’s trust accounts or trust ledger accounts.

The response pathway should exist before an incident occurs.

Operationally, that means preserving records, establishing and quantifying the facts, escalating promptly, correcting any deficiency appropriately, addressing applicable notification obligations, and repairing the control failure.

Where there is uncertainty, the practice should obtain appropriate advice or contact QLS.

One principle is nevertheless important:

Do not alter the records to make the problem disappear.

AML/CTF: the obligation that started on 1 July 2026

Amendments to the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) brought legal practitioners into the regime from 1 July 2026. It is a separate regime with its own regulator, and nothing in it changes an obligation under the Legal Profession Act — but the two meet at the trust account, because the money coming into trust is the money AUSTRAC is interested in.

The trigger is the service, not the firm. Designated services include assisting in the planning or execution of a transaction to buy, sell or transfer real estate; creating or restructuring a body corporate or legal arrangement; receiving, holding, controlling or managing a person's property to help plan or execute a transaction; and acting as, or arranging for someone to act as, a director, trustee or nominee shareholder. A practice becomes a reporting entity the first time it provides one, and must enrol with AUSTRAC within **28 days** of doing so.

What follows enrolment is a programme, not a form: a governing body decision, a nominated AML/CTF compliance officer, a written AML/CTF programme with a money laundering and terrorism financing risk assessment, customer due diligence before the service is provided, ongoing monitoring, suspicious matter and threshold transaction reporting, record keeping, staff training and a periodic independent evaluation.

> **WHERE IT TOUCHES THE TRUST ACCOUNT**
>
> Customer due diligence belongs at file opening, before the money arrives; a receipt in the trust account is not the moment to start identifying the client. And the patterns the programme asks you to notice — funds from a third party with no evident connection to the matter, an overpayment followed by a request to refund to a different account, a transaction abandoned after money is received — are the same items that surface as exceptions on a trust reconciliation. Suspicious matter reporting carries a tipping-off prohibition, so how you handle one matters as much as whether you report it. Queensland Law Society publishes a practitioner checklist; start there.

The monthly rhythm of a well-controlled trust account

As transactions occur

- identify and classify money received;
- issue receipts promptly;
- bank money as required;
- check cleared funds before payment;

- prepare appropriate payment records;
- verify payment details where required;
- retain supporting evidence.

During the month

- keep the trust records current;
- investigate unknown deposits;
- follow up unusual transactions;
- maintain complete payment evidence;
- update system and banking access when authority changes.

At month end

- reconcile the bank to the cash book;
- reconcile the trust ledgers to the cash book;
- review the trust trial balance;
- investigate unusual adjustments;
- identify debit balances;
- review outstanding deposits;
- review unpresented cheques;
- review unidentified money;
- reconcile controlled money where relevant;
- ensure principal review is completed and evidenced.

QLS requires the reconciliation within 15 working days and describes the reconciliation process as an extremely important internal control.

Periodically

- review dormant balances;
- review bank and system users;
- review authorised signatories;
- review backup arrangements;
- review external-examination readiness.

Annually

Trust account statements, the external examination where applicable, and the annual declarations. During July each year the practice must also give the Society written notice of everyone authorised as at 1 July to

sign trust cheques or otherwise authorise withdrawals — unless the external examiner's report for the period ending that 31 March has already been lodged.

> **NOT AN ANNUAL ITEM**
>
> The main signatory notification is not annual. Section 46 of the Regulation requires written notice to the Society either before, or within **14 days** after, someone becomes or ceases to be authorised. Waiting for the July notice can put the practice up to twelve months late.

Ten questions every law firm director should be able to answer

The following ten questions are a useful test of whether the director has meaningful visibility.

1. Does the trust bank agree exactly to the accounting records?

Not approximately. Exactly.

2. Does the total of the individual trust ledgers agree to the cash book?

A reconciled bank account does not prove that the client allocation is correct.

3. Are any trust ledgers in debit?

If so, why?

4. What are the oldest reconciling items?

Who owns them and when will they be resolved?

5. Are there unidentified trust deposits?

How old are they and what investigation has occurred?

6. Who currently has the ability to release trust payments?

Does that match the practice’s current authority structure?

7. Can one person control the entire payment process?

Can they create the payee, enter the payment, release it and reconcile it?

8. How are payment details independently verified?

Particularly when bank details change.

9. Can the practice quickly produce the support for every trust-to-office transfer?

If not, the process needs strengthening.

10. If an irregularity occurred today, does the practice know what happens next?

Who investigates? Who escalates? Who determines the reporting position? Where is the evidence retained?

If these questions can be answered confidently and supported by records, the practice has meaningful visibility over its trust accounting environment.

If several answers are uncertain, that uncertainty itself is valuable.

It identifies where stronger control is needed.

What good trust accounting ultimately looks like

A strong trust environment is defined less by the absence of exceptions than by how quickly they become visible, how clearly they are owned and how reliably they are resolved.

A strong system:

- makes exceptions visible;
- assigns responsibility;
- maintains a clear audit trail;
- separates preparation from authorisation where practicable;
- escalates unusual matters;
- reconciles properly;
- resolves aged items;
- retains supporting evidence;
- gives the principal meaningful visibility.

The objective is not to create more paperwork.

It is to create enough structure that the practice can answer one fundamental question:

Can we demonstrate that every dollar of trust money is where it should be, belongs to whom we say it belongs, and has only moved for a properly supported reason?

If the answer is yes — and the evidence supports it — the trust accounting function is doing its job.

Where QLD Legal Finance fits

QLD Legal Finance is designed for firms that want specialist trust accounting and financial control without building a full internal finance function.

The role is not simply to process transactions. It is to maintain the accounting discipline, exception visibility and reporting structure that allows principals to remain in control.

That can include:

- maintaining accurate and current trust accounting records;
- completing and reviewing the monthly trust accounting process;

- identifying and following up exceptions;
- maintaining appropriate supporting records;
- providing principals with clearer visibility over unresolved trust items;
- strengthening payment and financial control processes;
- helping the practice remain organised throughout the year rather than preparing for compliance events at the last minute.

The objective is not to remove responsibility from the law practice.

It is to give the people responsible for the practice better information, stronger processes and greater confidence in the financial controls supporting it.

For firms without a dedicated internal finance function, that distinction matters.

The question is not simply:

Who is doing the bookkeeping?

It is:

Who is making sure the finance and trust accounting function remains under control?

Important information

This guide is general information only and does not take account of the circumstances of any particular law practice. It is not legal advice.

Law practices should refer to the Legal Profession Act 2007 (Qld), the Legal Profession Regulation 2017 (Qld) and current Queensland Law Society guidance when determining their obligations.

Where there is uncertainty about the treatment of trust money, an irregularity, reporting obligations or the application of the legislation to particular circumstances, appropriate professional advice or guidance from Queensland Law Society should be obtained.

QLD Legal Finance supports Queensland law practices with trust accounting, financial control and advisory services. It does not act as a law practice’s external examiner and is not affiliated with or endorsed by Queensland Law Society.

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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