nova scotia real estate
COMMISSION

# Audit Policy

# Audit Policy

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# Audit Policy

## Introduction

The Nova Scotia Real Estate Commission is responsible to ensure consumer confidence through the administration of the Real Estate Trading Act (the Act) and the Commission By-law (By-law) and Commission Policies (Policies).

This policy is an expansion of sections within By-law 600 and 700 regarding broker responsibilities and supervision for NSREC trust audits and brokerage audits.

The broker has the overall responsibility to ensure that all licensees at their brokerage comply with the Act, the By-law, and the Policies in regards to the facilitation and handling of trust funds and the preparation and facilitation of real estate documentation.

A typical audit reviews historical trust account and transaction records, not active transaction records.

The purpose of the NSREC audit policy is to identify noncompliance, if any, with the brokerage's trust account and transaction records. The audit helps the Commission and the broker determine if internal controls the broker has in place are effective. Effective controls protect the public interest and reduces the risk to the brokerage.

### Cooperation

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Per the Commission By-law, every broker is required to fully cooperate with the Commission throughout the audit process, this includes, but is not limited to, making available and providing all records requested by the auditor and responding to all inquiries from the Commission in order to complete the audit.

### Trust account audit

**102**

A typical trust account audit has two components. The first component is to review the trust account bank statements and the four record keeping requirements for compliance. The second component is to review a random sample of historical trust account transactions processed through the brokerage to assess whether the brokerage followed Commission requirements for depositing, recording, and disbursing trust funds.

**103**

Trust Records are required to be in compliance with the Act, the By-law and the Polices (in particular, the Commission's Brokerage Transaction and Trust Account Policy).

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## Brokerage audit

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The typical brokerage audit includes both a trust account audit and the review of a sample of historical real estate transaction records. Transaction records are selected at random. Transaction records are reviewed to ensure paperwork is accurate, complete, and filled out in compliance with the Act, the By-law, and the Policies (in particular, the Brokerage Transaction and Trust Account Policy).

**105**

A brokerage audit is based on the contents of the records at the time of the audit. All required documents must be provided to the auditor at the time of the audit.

## Audit frequency

**106**

Every broker receives a trust audit yearly. Brokerage audits are conducted every three years or as required, at the discretion of the Registrar and/or Compliance Manager.

**107**

Additional audits may be required when a new broker becomes licensed, a brokerage closes, a change of broker, or a spot audit conducted in response to compliance concerns. In the case of a change of broker audit, both the former broker and new broker will receive a copy of the audit report.

## Process for booking an audit

**108**

The auditor contacts the broker by email. The email notifies the broker what type of audit will be conducted and establishes the audit date. The email identifies the audit period and includes an attached audit form for the broker to complete and return to the auditor along with other requested items by a specific date.

The audit forms are identified in the following section. The type of form the broker is provided with depends on whether the brokerage had trading activity and/or held trust funds during the audit period.

**109**

The broker completes the audit form and returns it along with the following items:

1. A chronological list of all trades facilitated during the audit period by date (closed and terminated)
2. Trust account bank statements for the audit period
3. Trust control ledger for the audit period
4. Monthly trust account bank reconciliations for the audit period
5. Monthly trust liability listings for the audit period.

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## Audit forms

**110**

There are three audit forms. The type of audit forms a broker is required to complete depends on the trust and trading activity of the brokerage.

**Form 1—completed by the broker when the brokerage held trust funds and conducted trades**

**Form 2—completed by the broker when the brokerage did not hold trust funds but did conduct trades**

**Form 3—completed by the broker when the brokerage did not hold trust funds and did not conduct any trades**

## Method of providing records

**111**

All audit documentation will be provided to the auditor using an electronic record-sharing platform unless otherwise determined by the Registrar. Electronic records must be provided in one of two file formats: PDF or JPEG.

**112**

When submitting both trust and transaction records, the broker is required to ensure the records are provided to the auditor in a format that is easily understandable. The file for each record must be:

1. Named appropriately
2. Uploaded in a consistent chronological order or reverse chronological order. Brokers can choose either order in which to upload the records.
    (a) Transaction records in chronological order: Working with the Real Estate Industry disclosure form, Brokerage Agreement, Agreement of Purchase and Sale, Amendment(s), etc.
    (b) Trust account record keeping in chronological order: Bank reconciliations by month, bank statements by month, and liability listings by month or all three records combined by month, for example: February bank reconciliation, February bank statement, and February liability listing as one file.
3. Logical and complete records—the records must be provided in their entirety in a readable manner. This means the records, when opened, are not upside down, sideways, cut off/missing text, and not piecemeal, for example: all pages of an Agreement of Purchase and Sale including schedules/addendums are in order, upright, and complete.

When providing trust control ledger ensure the running balance is not cut off.

If the records are not provided as described above, the auditor will advise the broker to resubmit the records.

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## Sampling

**113**

For trust account audits, the sample will include historical trust account transactions of deposits and disbursements within the audit period. The auditor will select a small sample from each month where there was trust activity. Sample size will either be increased or decreased depending on preliminary findings. Sample sizes will be at the discretion of the auditor and based on past year's audit results, discipline history of licensees at the brokerage, number of transactions, number of licensees, new broker.

**114**

For brokerage audits, will include both a trust account audit and the review of historical real estate transaction records. The auditor will select a small sample of transaction records for the audit period. Sample sizes will be at the discretion of the auditor and based on past year's audit results, discipline history of licensees at the brokerage, number of transactions, number of licensees, new broker, type of transactions.

Once the auditor has chosen their sample, they email the broker identifying the sample and requesting the following files to complete the audit: transaction records, individual trust records, trust deposit record (slips), trust disbursement records (cleared trust cheques, EFT confirmations, bank drafts), and closing confirmations.

Once the auditor receives all requested documentation, the audit will be conducted. If there are follow up questions or additional information required, the auditor will email the broker.

After the audit is complete, the auditor will prepare the audit report. The broker will receive the audit report via email.

## Audit report

**115**

The audit report identifies the audit review period, the summary of what the auditor reviewed, and the findings. The report will also indicate the effectiveness of the broker's internal controls and areas, if any, that require improvement.

**116**

The report will describe any discrepancies identified to assist the broker in ensuring compliance going forward. If the audit report demonstrated significant discrepancies or if there is a consistent trend of ongoing noncompliance, the matter may be referred to the Registrar.

**117**

If the broker wants a review of the results of the audit report, the broker must make a submission to the Compliance Manager requesting a review. The request must be made in writing and have supporting reasons as to why they are disputing the findings of the audit report.

**118**

For any audit related matter that is referred to the Registrar, further action may result, including formal investigation.