

Key Notes

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Disclaimer

This practice note has been issued by NZX to promote market certainty and assist Market Participants. This Practice Note sets out NZX's general approach to the subject, but is not to be regarded as a definitive statement of the application of the Rules in every situation. NZX may replace Guidance Notes and Practice Notes at any time and a Market Participant should ensure it has the most recent versions of those documents. This does not constitute legal advice. NZX recommends that Market Participants take advice from qualified persons.

PRACTICE NOTE PN 08/05 – BANK RECONCILIATION STANDARDS

INTRODUCTION

This Practice Note has been published in order to provide minimum standards with respect to the operation of bank reconciliation processes. Rather than being prescriptive as to reconciliation format and content, the purpose of this Practice Note is to provide assistance to Market Participants in ensuring that bank reconciliations in general operate as an effective control.

BACKGROUND

NZX Regulation considers that bank reconciliations are a key control over cash transactions and client monies. In general, bank reconciliations are important as:

- The reconciliation provides independent confirmation of bank ledger balances;
- The reconciliation(s) can be used to combat fraud;
- Market Participants have a fiduciary duty to protect client monies; and
- The reconciliation(s) can be used as a reference point from which other assets or obligations can be controlled.

FREQUENCY OF RECONCILIATION

The NZX Participant Rules ("Rules") are prescriptive with respect to the frequency of reconciliation of Client Funds bank accounts.

Participant Rule 14.7.1 (g) requires Market Participants *"...reconcile the records of the Client Funds Account held by the Market Participant Accepting Client Assets with the records of the Bank holding the Client Funds Account in all currencies on a daily basis."*

The Rules do not provide any guidance with respect to the reconciliation of operational bank accounts. However, NZX Regulation considers that reconciliation of operational accounts should occur not less than monthly. For high volume accounts, reconciliations should be performed on a more frequent basis.

CONTROLS OVER RECONCILIATIONS

Basic controls over reconciliation processes should include:

- Documented processes and procedures, including:
 - A summary of all bank accounts;
 - Details as to usage of each account;
 - Ownership and reconciliation responsibilities; and
 - Details of account signatories
- Appropriate segregation of duties between entry creation and reconciliation duties;
- Assignment of responsibility for reconciliations at an appropriate level; and
- Independent review at an appropriate level.

Independent review is the most critical element to ensuring the effectiveness of bank reconciliations as a key control. Critical components of this review include:

- Reconciling items are valid and supported by sufficient explanation and supporting documentation;
- Ensuring reconciling items clear within a reasonable time period;
- Ensuring outstanding items are investigated and resolved;
- Stale cheques are followed up with the client / vendor concerned;
- Manual entries to the bank ledger are valid.

The frequency of the review should be the same as the frequency of the reconciliation preparation. The review is not an effective control unless there is evidence of it having been performed.

PREPARATION OF RECONCILIATIONS

NZX Regulation recognises that both manual and system-generated reconciliations are common. There is no difference in the standards that apply. Keeping data entry to a minimum will help reduce the risk of human error or data manipulation. It is now common to automate the import of bank account transactions into a reconciliation programme.

Regardless of the method of preparation, there should be sufficient information available to demonstrate how the matching of items occurs.

Transactions within the reconciliation should be unalterable except for adding comments on the item to allow anyone to be able to pick up the reconciliation in the absence of the usual reconciler, for example:

- Outstanding items should be explained along with action taken to resolve if they are outstanding for an unreasonable length of time;
- Any large or unusual items should be annotated; and
- Differences awaiting correction should be annotated and not netted off.

RETENTION OF RECORDS

Copies of the completed reconciliation should be kept as evidence of completion.

NZX Regulation expects that, as a key control, bank reconciliations and associated records are kept for a minimum of 7 years in accordance with Participant Rule 3.27.1.