

Financial statements

Law Claims Levy Fund

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Statement of comprehensive income for the year ended 30 June 2012

	NOTES	2012 \$	2011 \$
Revenue			
Insurance levies	2	27,914,432	29,019,706
Additional levies		-	57,500
Total levies		27,914,432	29,077,206
Other income			
Investment income		2,141,019	3,058,474
Realised gains (losses) on financial assets – fair value through profit or loss		(255,672)	40,443
Fair value gains (losses) on financial assets – fair value through profit or loss		(309,689)	(959,583)
Total other income		1,575,658	2,139,334
Total revenue		29,490,090	31,216,540
Expenses			
Administration expenses		111,600	92,574
Audit fees		19,000	18,100
Insurance expenses	2	27,557,536	26,250,000
Insurance claims	4	(213,382)	(167,395)
Reinsurance recoveries		(85,532)	(355,107)
Total expenses		27,389,222	25,838,172
Operating surplus		2,100,868	5,378,368
Total comprehensive income		2,100,868	5,378,368

Statement of financial position as at 30 June 2012

	NOTES	2012 \$	2011 \$
Current assets			
Cash and cash equivalents	7(a)	32,231,792	26,003,206
Receivables	5	124,281	294,879
Total current assets		32,356,073	26,298,085
Non-current assets			
Financial assets of fair value through profit or loss	7(b)	31,914,893	31,192,670
Total non-current assets		31,914,893	31,192,670
Total assets		64,270,966	57,490,755
Current liabilities			
Income in advance	3	27,203,309	22,058,873
Payables		33,672	64,765
Provision for outstanding claims	4	50,000	484,000
Total current liabilities		27,286,981	22,607,638
Net assets		36,983,985	34,883,117
Equity			
Retained surplus		36,983,985	34,883,117
Total equity		36,983,985	34,883,117

The accompanying notes form part of these statements.

Statement of changes in equity for the year ended 30 June 2012

	2012 \$	2011 \$
Balance at 1 July	34,883,117	29,504,749
Operating surplus for the period	2,100,868	5,378,368
Balance at 30 June	36,983,985	34,883,117

Statement of cash flows for the year ended 30 June 2012

	NOTES	2012 \$ Inflows (outflows)	2011 \$ Inflows (outflows)
Cash flows from operating activities			
Receipts from the profession		33,058,868	25,871,417
Claim payments		(220,618)	(247,605)
Reinsurance recoveries		85,532	355,107
Payments to suppliers		(27,717,298)	(26,334,307)
Interest receipts		336,850	414,063
Net cash provided by/(used in) operating activities	6(c)	5,543,334	58,675
Cash flows from investing activities			
Proceeds from disposal of investments		1,475,747	106,909
Purchase of term deposits		(8,500,000)	-
Purchase of investments		(1,460,000)	(3,500,000)
Cash distributions received		669,505	659,350
Transfer to QLS for purchase of Lexon shares		-	-
Net cash flows from investing activities		(7,814,748)	(2,733,741)
Net increase/(decrease) in cash held		(2,271,414)	(2,675,066)
Cash at the beginning of the financial year		24,003,206	26,678,272
Cash at the end of the financial year	7(a)	21,731,792	24,003,206

The accompanying notes form part of these statements.

Notes to and forming part of the financial statements for the year ended 30 June 2012

NOTES

Objectives and principal activities

The Queensland Law Society Incorporated ('the Society'), pursuant to s232 of the *Legal Profession Act 2007* ('the Act') is authorised to establish and maintain a fund for the purposes of providing insurance to the legal profession of Queensland.

The Law Claims Levy Fund ('The Fund') was created in 1987 to provide professional indemnity insurance to Queensland solicitors. The Fund is responsible for the management of professional indemnity claims of practitioners for the years 1987 to 1995, and the administration insurance matters (jointly with Lexon Insurance Pte Ltd) in accordance with the Queensland Law Society Indemnity Rule 2005.

1 Summary of significant accounting policies

a. Statement of compliance

The Fund has prepared these financial statements in compliance with s43 of the *Financial and Performance Management Standard 2009*.

These financial statements are general purpose financial statements and have been prepared on an accrual basis in accordance with the Australian Accounting Standards and interpretations. In addition, the financial statements comply with the Treasurer's Minimum Reporting Requirements for the year ending 30 June 2012 and other authoritative pronouncements.

Except where stated, the historical cost convention is used.

b. Revenue

Additional levies may be imposed in accordance with the indemnity rules and are accounted for separately and disclosed as income of the Fund. Investment revenue is recognised as it accrues, taking into account the effective yield on the financial asset and is also recognised net of bank charges.

c. Taxation

The Fund is exempt from income tax by virtue of Section 50-25 of the *Income Tax Assessment Act 1997* with the exception of Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

d. Cash and cash equivalents

For the purposes of the Statement of financial position and Statement of cash flows, cash assets include all cash and cheques receipted but not banked at 30 June as well as deposits on call with financial institutions. Short term deposits are an interest bearing account which is readily convertible to cash on hand at the Society's option and is subject to a low risk of change in value. Investments are brought to account at fair value as indicated in Note 6(a).

e. Other receivables

Interest receivable represents interest earned on funds held up to a balance date which has not yet been received.

The Fund has brought to account solicitors' deductibles and penalties receivable from practitioners. These receivables have been recognised on an accrual basis and are carried at actual amounts. The collectability of trade debtors is assessed at reporting date with provision being made for impairment. All known bad debts were written off as at 30 June.

f. Provision for outstanding claims

Claims are actuarially assessed and the movement in the actuarial assessment is disclosed in the Statement of comprehensive income as movement in outstanding claims. Actual claim payments are separately disclosed.

Notes to and forming part of the financial statements for the year ended 30 June 2012

1 Summary of significant accounting policies (continued)

g. Financial assets, at fair value through profit or loss

Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented funds investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

h. Income in advance

Income in advance relates to insurance levies collected from the profession in relation to the upcoming insurance year. (ie current year levies in advance relate to collections for the insurance year 1 July 2012 to 30 June 2013).

i. Payables

Trade creditors are recognised on receipt of the goods or services and are carried at actual amounts, gross of applicable trade and other discounts. Amounts are unsecured and are generally settled on 30 day terms.

j. Employee benefits

The fund has no employees and as such no benefits outstanding.

k. Professional indemnity insurance

The Queensland Law Society Incorporated entered into a Master Policy agreement with Professional Indemnity Insurers to limit the maximum liability of the Fund for both individual claims and aggregate amounts. The Fund incurs all expenses up to a prescribed amount per individual claim until such time as the aggregate amount has been reached at which time the Professional Indemnity Insurers incur all future costs. The respective individual liability per claim is listed in Note 8.

l. Judgments and assumptions

Full provision is made for the estimated cost of all claims admitted or intimated but not settled at the reporting date, less reinsurance recoveries, using the best information available at that time.

The Fund has made no other judgments or assumptions which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

m. Audit fees

The audit fees paid and payable to the Queensland Audit Office to perform an audit of the Fund's transactions for 2011-12 are estimated to be \$19,000 (2011: \$18,100) This amount is included in the Statement of comprehensive income.

n. New and revised accounting standards

The Fund did not voluntarily change any of its accounting policies during 2011-12.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] became effective from reporting periods beginning on or after 1 January 2011.

AASB 1054 Australian Additional Disclosures became effective from reporting periods beginning on or after 1 July 2011. Given the Fund's previous disclosure practices, AASB 1054 had minimal impact on the Fund. Audit fees have now been disclosed in Note 1(m).

The Fund is not permitted to early adopt a new or amended accounting standard ahead of the specified commencement date unless approval is obtained from the Treasury Department. Consequently, the Fund has not applied any Australian accounting standards and interpretations that have been issued but are not yet effective. The Fund applies standards and interpretations in accordance with their respective commencement dates.

The following new and revised standards apply as from reporting periods beginning on or after 1 January 2013:

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 127 (revised) Separate Financial Statements

Notes to and forming part of the financial statements for the year ended 30 June 2012

1 Summary of significant accounting policies (continued)

n. New and revised accounting standards (continued)

- AASB 128 (revised) Investments in Associates and Joint Ventures
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17].

These standards cannot be applied by not-for-profit entities prior to their effective date, as the AASB is presently considering modifying them for application by not-for-profit entities in an Australian context. Any such modifications are likely to clarify how the IASB's principles should be applied by not-for-profit entities. Hence, the Fund is not yet in a position to reliably determine the future implications of these new and revised standards for the department's financial statements.

All other Australian accounting standards and interpretations with future commencement dates are either not applicable to the Funds activities, or have no material impact on the Fund.

2 Insurance levies and premium

All insurance levies collected via the Queensland Law Society (QLS) renewal process were transferred to the Law Claims Levy Fund. The surplus collection can only be used in accordance with the Indemnity Rules for insurance purposes.

The Fund continues to accumulate reserves in accordance with actuarial assessments for the benefit of all practitioners.

The insurance expense represents the amount payable under the master policy in accordance with the Indemnity Rules.

3 Income in advance

Income in advance relates to insurance levies collected from the profession during the renewals cycle which relate to insurance cover to be provided post the end of the financial year.

Income in advance	2012	2011
	\$	\$
Levies received in advance	27,203,309	22,058,873

4 Provision for outstanding claims

	2012	2011
	\$	\$
Opening balance at start of reporting period	484,000	899,000
Claims incurred	(213,382)	(167,395)
Claims paid	(220,618)	(247,605)
Closing balance at end of reporting period	50,000	484,000
Current liability	50,000	484,000
Non-current liability	-	-
	50,000	484,000

The Fund has a stop loss policy with Lexon Insurance Pte Ltd (formerly QLS Insurance Pte Ltd) which initially capped its liability for future payments at \$5,000,000 at 1 July 2002.

Notes to and forming part of the financial statements for the year ended 30 June 2012

5 Receivables

	2012	2011
	\$	\$
Current		
Interest receivable	123,955	292,622
GST receivable	326	2,257
	124,281	294,879

6 Notes to the cash flow statement

a. Reconciliation of cash

For the purposes of the Statement of cash flows, cash includes cash on hand and in banks and investments on money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of cash flows is reconciled to the related items in the Statement of financial position. Refer to Note 7a.

b. Financing facilities

The Fund has no external non-cash financing or any standby credit facilities or any other loan facilities.

c. Reconciliation of net cash provided by operating activities to the operating surplus/ (deficit) for the year

	2012	2011
	\$	\$
Surplus/(deficit) for the period	2,100,868	5,378,368
<i>Adjustments for:</i>		
Net investment income	(1,407,475)	(1,570,983)
<i>Changes in assets and liabilities:</i>		
Decrease/(increase) in accounts receivables	170,598	(154,249)
Increase/(decrease) in provision for outstanding claims	(434,000)	(415,000)
Increase/(decrease) in accounts payables	(31,093)	26,328
Increase/(decrease) in income in advance	5,144,436	(3,205,789)
Net cash provided by/(used in) operating activities	5,543,334	58,675

Notes to and forming part of the financial statements for the year ended 30 June 2012

7 Cash and financial assets

	2012	2011
	\$	\$
7(a) Current assets:		
Cash at bank	169,593	187,677
Short term deposits at cost	21,562,199	23,815,529
Cash included in cash flow	21,731,792	24,003,206
Term deposit	10,500,000	2,000,000
Total cash and cash equivalent	32,231,792	26,003,206
7(b) Financial assets, at fair value through profit or loss:		
Collective investment schemes	31,914,893	31,192,670

The portfolio of financial instruments held consists of collective investment schemes. The fair value of the financial instruments is determined using net asset value of the collective investment schemes.

Managed funds include units in various funds with the following managers:

- Queensland Investment Corporation
- UBS Global Asset Management
- AMP Capital Investors
- BNP Paribas Investment Partners
- BlackRock Investment Management
- Russell Investments
- Tasman Asset Management (Tyndall)
- Zurich Investments Management
- Schroder Investment Management
- Denning Pryce.

8 Contingent liabilities

Under the present insurance agreements the total liability of the Fund for the respective years of insurance is limited to \$100,000 (1987-1994) and \$500,000 (1995) per individual claim and this amount is reduced by the amount of the solicitors' deductible. Also an aggregate limit per respective year of insurance applies and this limits the total liability of the Fund.

Based on the actuarial advice in respect of the position of the Fund as at 30 June 2012 (Finity – August 2012), the insurance in place with regard to the limits per file, and the overall Fund's aggregate limit as at 30 June 2012, the Society is of the opinion that the funds on hand together with future investment income and deductibles, and in conjunction with stop loss cover (see Note 4) will ensure that all future claims will be met as and when they fall due.

Notes to and forming part of the financial statements for the year ended 30 June 2012

9 Financial risk

The Fund's activities expose it to a variety of financial risks: market risk (currency risk, price risk and interest rate risk), credit risk and liquidity risk.

a. Currency risk

The Fund is not exposed to significant foreign currency risk as the majority of the Fund's transactions, assets and liabilities are denominated in Australian dollars.

The Fund outsources its investment activities to respected fund managers who use defined risk management techniques as part of the Fund's mandates.

All investments in income securities are predominately hedged where a currency exposure exists.

As part of the Fund's investment mandate it may hold units in funds which hold unhedged international securities. Any unhedged position will be in accordance with the strategic asset allocation, and is monitored regularly by management.

b. Price and interest rate risk

The Fund is exposed to equity securities price risk arising from the investments classified as other financial assets. These securities are held with Australian fund managers.

The Fund seeks to reduce risk by diversifying across a range of securities, maturities and counterparties. Investments of funds are subject to risk control limits and constraints:

Duration and tracking error limits (interest rate management)

- The Modified Duration of the funds are constrained within a specified period either side of the Modified Duration of the Benchmark.
- Rolling year ex-post tracking error will be limited to a specified number of basis points. The ex-ante tracking error of the funds is not expected to exceed a specified number of basis points.

Sector exposure bands

- The weighting of each sector (eg domestic, international government, non-government) within the Fund's will be maintained in specified limits.

Credit limits

- The funds will be invested in a broad and diversified range of securities across the credit spectrum.

Credit risk limits for individual security investments

- Individual security limits apply for direct physical holdings based on their credit rating and inclusion in the benchmark.

Management regularly review the performance and ensure all investments held are within the approved mandate.

Notes to and forming part of the financial statements for the year ended 30 June 2012

9 Financial risk (continued)

c. Credit risk

There is no significant credit risk with respect to the collectability of levies as the levy is compulsory. All levies are paid up front at the commencement of the period covered under the insurance policy.

Credit risk arising on funds placed with external fund managers is managed by established policies to ensure that the counter-parties have adequate financial ratings and appropriate credit history.

i. Financial assets that are neither past due or impaired

At the reporting date no financial assets are past due or impaired.

Cash and cash equivalents that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

Other financial assets are redeemable on demand. These are placed with reputable fund managers. The Fund holds units in two funds which have frozen redemptions as a result of the Global Financial Crisis (refer to Note 9(d)).

ii. Financial assets that are past due and/or impaired

No financial assets are past due.

d. Liquidity risk

In the management of liquidity risks, the Fund monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Fund's operations and mitigate the effects of fluctuations in cash flows. The Fund also constantly reviews its investment to ensure that there are sufficient cash and liquid deposits to meet its estimated outflows.

The Fund manages its expected cash flow requirements using the latest actuarial valuations detailing projected cash flows. These are monitored in conjunction with available cash and investments readily convertible to cash.

d. Liquidity risk (continued)

As at reporting date, the Fund's financial liabilities are all current.

The fund holds units in two funds with fair values of \$2,301,207 (2011: \$2,656,608) which have limited redemptions as a result of the Global Financial Crisis. These property funds and redemptions would require disposal of real property which may be to the detriment of remaining unit holders. The funds are accounted for at fair value. These funds are not required for liquidity purposes.

e. Interest rate and price sensitivity

The following interest rate sensitivity depicts the outcome to the profit and loss if the interest rates were to increase by 1% linearly from the year end yield curve applicable to the Fund's financial assets and liabilities which are subject to interest movements. With all other variables held constant, the Fund would have a decrease of \$384,875 (2011: \$305,233). A linear decrease of interest rates by 1% would result in an increase of \$384,875 (2011: \$305,233).

The following price sensitivity depicts the outcome to the profit and loss if all equity investments moved an average of 5% from the year end values. With all other variables held constant, the company would record an unrealised gain of \$406,600 (2011: \$437,364) for a 5% increase in market values and an unrealised loss of \$406,600 (2011: \$437,364) for a 5% decrease in market values.

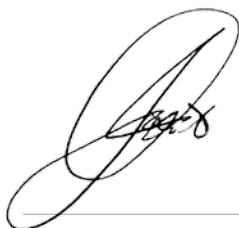
f. Fair value

The carrying amount of cash and cash equivalent, receivables, payables and lease liabilities approximate their fair value and are not disclosed separately.

Declaration of Law Claims Levy Fund

The general-purpose financial report has been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* ('the Act'), relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with Section 62(1)(b) of the Act we certify that in our opinion:

- a. the foregoing financial statements with other information and notes to and forming part thereof are in agreement with the accounts and records of the Law Claims Levy Fund.
- b. In our opinion:
 - i. the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects
 - ii. the financial statements have been drawn up so as to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Law Claims Levy Fund for the financial year ended 30 June 2012 and of the financial position as at the close of that year.



President

John de Groot



Chief Executive Officer

Noela L'Estrange

31 August 2012

Independent Auditor's report

To the Law Claims Levy Fund

Report on the financial report

I have audited the accompanying financial report of Law Claims Levy Fund, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the President and Accountable Officer of the entity.

The Council's responsibility for the financial report

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with the Australian Accounting Standards. The Council's responsibility also includes such internal control as the Council determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor-General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Independent Auditor's report

Opinion

In accordance with s40 of the *Auditor-General Act 2009*:

- a. I have received all the information and explanations which I have required.
- b. In my opinion:
 - i. the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects
 - ii. the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Law Claims Levy Fund for the financial year 1 July 2011 to 30 June 2012 and of the financial position as at the end of that year.

Other matters – electronic presentation of the audited financial report

This auditor's report relates to the financial report of Law Claims Levy Fund for the year ended 30 June 2012. Where the financial report is included on the Law Claims Levy Fund's website the Council is responsible for the integrity of the Law Claims Levy Fund's website and I have not been engaged to report on the integrity of the Law Claims Levy Fund's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.



Denis Hugh Costello, CPA

(as Delegate of the Auditor-General of Queensland)

31 August 2011

Brisbane