

FINANCES

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*All amounts are denoted in Australian currency.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of comprehensive income for the year ended 30 June 2017

	NOTES	2017 \$	2016 \$
Revenue			
Practitioner levies	B1-1	1,016,987	1,987,993
Investment income	B1-2	1,418,258	348,687
Unrealised gains / (losses) on investments		252,916	788,265
Costs recovered		-	5,900
Net reversal of notified claims	C7	270,135	622,133
Total revenue		2,958,296	3,752,978
Expenses			
Administration expenses	B2-1	33,839	60,051
Notified claims	C7	1,190,038	2,592,961
Claim costs		186	13,362
Investment fees		54,167	13,875
Expenses reimbursed to the Queensland Law Society	B2-2	225,211	254,593
Total expenses		1,503,441	2,934,842
Operating result for the year		1,454,855	818,136
Other comprehensive income		-	-
Total comprehensive income for the year		1,454,855	818,136

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of financial position as at 30 June 2017

	NOTES	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	C1	541,720	1,554,824
Receivables	C3	753,182	337,452
Investments	C4	29,289,995	29,088,265
Total current assets		30,584,897	30,980,541
Total assets			
		30,584,897	30,980,541
Current liabilities			
Payables	C5	181,032	93,295
Income in advance	C6	769,096	926,630
Provision for notified claims	C7	881,272	2,661,974
Total current liabilities		1,831,400	3,681,899
Total liabilities			
		1,831,400	3,681,899
Net assets			
		28,753,497	27,298,642
Equity			
Accumulated surplus		28,753,497	27,298,642
Total equity		28,753,497	27,298,642

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of changes in equity for the year ended 30 June 2017

	2017	2016
	\$	\$
Accumulated surplus		
Balance at 1 July	27,298,642	26,480,506
Total comprehensive income for the year	1,454,855	818,136
Balance at 30 June	28,753,497	27,298,642

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statements of cash flows for the year ended 30 June 2017

		2017 \$	2016 \$
	NOTES	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Contributions by practitioners and cost recoveries		424,213	2,595,170
Claim payments and administration expenses		(2,856,445)	(2,043,704)
Interest and distributions received		18,878	370,525
Net Cash (used in)/ provided by operating activities	C1	(2,413,354)	921,991
Cash flows from investing activities			
Proceeds from/ (payments for) investments		1,400,250	(28,300,000)
Net cash (used in)/ provided by investing activities		1,400,250	(28,300,000)
Net decrease in cash and cash equivalents held		(1,013,104)	(27,378,009)
Cash and cash equivalents at the beginning of the financial year		1,554,824	28,932,833
Cash and cash equivalents at the end of the financial year	C1	541,720	1,554,824

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

A1 BASIS OF FINANCIAL STATEMENT PREPARATION

A1-1 GENERAL INFORMATION

The Queensland Law Society Incorporated (the Society), pursuant to s359 of the *Legal Profession Act 2007* (the Act) is required to maintain the Legal Practitioners' Fidelity Guarantee Fund (the Fund).

A1-2 COMPLIANCE WITH PRESCRIBED REQUIREMENTS

The Fund has prepared these financial statements in compliance with section 43 of the *Financial and Performance Management Standard 2009*. The financial statements comply with Queensland Treasury's Minimum Reporting Requirements for reporting periods beginning on or after 1 July 2016.

The Fund is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis (except for the Statement of Cash Flows which is prepared on a cash basis) in accordance with Australian Accounting Standards and Interpretations applicable to not-for-profit entities.

A1-3 PRESENTATION

Currency and rounding

Amounts included in the financial statements are in Australian dollars. No rounding of amounts has occurred.

Comparatives

Comparative information reflects the audited 2015-16 financial statements. Certain comparative amounts in the statement of comprehensive income have been reclassified to conform with the current year's presentation.

Current/non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within twelve (12) months after the reporting date. Liabilities are classified as 'current' when they are due to be settled within twelve (12) months after the reporting date, or the Fund does not have an unconditional right to defer settlement to beyond twelve (12) months after the reporting date.

All other assets and liabilities are classified as 'non-current'.

A1-4 BASIS OF MEASUREMENT

Historical cost is used as the measurement basis in this financial report except where stated.

Historical cost

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire assets at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique.

Observable inputs are publicly available data that are relevant to the characteristics of the assets/liabilities being valued.

Unobservable inputs are data, assumptions and judgements that are not available publicly, but are relevant to the characteristics of the assets/liabilities being valued. Significant unobservable inputs used by the Fund include, but are not limited to, subjective adjustments made to observable data to take account of the characteristics of the Fund's assets/liabilities. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets/liabilities.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-4 BASIS OF MEASUREMENT (continued)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use.

All assets and liabilities of the Fund for which fair value is measured or disclosed in the financial statements are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

- level 1 – represents fair market value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;
- level 2 – represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
- level 3 – represents fair value measurements that are substantially derived from unobservable inputs.

Investments are categorised into level 2 of the fair value hierarchy. There were no transfers of assets between fair value hierarchy levels during the period.

A2 THE FUND'S OBJECTIVES

The Fund has been established for the purposes of providing a source of compensation for defaults by law practices arising from acts or omissions of associates of the law practices. The major source of income for the Fund is levies from legal practitioners.

B1 REVENUE

B1-1 PRACTITIONER LEVIES

Revenues are recognised at fair value of the consideration received net of any amount of GST payable to the ATO. Practitioner levies are recognised over the period they relate to.

With a view to ensuring that the Fund is able to meet its financial commitments when they fall due, the Council of the Queensland Law Society Incorporated resolved to charge a levy for a practitioner of \$80 (2016: \$100) in accordance with s156 of the Act.

	2017	2016
	\$	\$
Practitioner Levies	1,016,987	1,987,993
	1,016,987	1,987,993

B1-2 INVESTMENT INCOME

Distribution from investments income is recognised when declared by fund managers.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset and is also recognised net of bank charges.

	2017	2016
	\$	\$
Distributions from investments	1,398,835	318,779
Interest income	19,423	29,908
	1,418,258	348,687

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

B2 EXPENSES

B2-1 ADMINISTRATION EXPENSES

	2017	2016
	\$	\$
Advertising	1,771	6,529
Actuarial fees	-	18,850
Audit fees	10,004	10,000
Payroll tax	6,086	5,261
Rent and electricity	14,472	14,124
Registration and memberships	655	645
Telephone	632	635
Travel	-	3,498
Sundry expenses	219	509
	33,839	60,051

Total audit fees paid and payable to the Queensland Audit Office to perform the audit of the Fund's financial statements for 2016-17 are estimated to be \$10,100 (2016: \$10,000). There are no non-audit services included in this amount.

B2-2 EXPENSES REIMBURSED TO THE QUEENSLAND LAW SOCIETY

The Fund, pursuant to s152 of the Act, is required to reimburse the Society for all costs and expenses incurred in the administration of the Fund. The Society performs all managerial and administrative tasks on behalf of the Fund.

	2017	2016
	\$	\$
Administration fees	115,104	142,772
Administration fees – reimbursement of payroll costs	110,107	111,821
	225,211	254,593

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

C1 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. The cash deposit account is an interest bearing account which is readily convertible to cash on hand at the Fund's option.

Cash includes cash on hand and in banks and investments in 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 as follows:

	2017	2016
	\$	\$
Cash assets	18,426	608,103
Cash deposit account	523,294	946,721
Total cash and cash equivalents	541,720	1,554,824

Financing facilities

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

Reconciliation of the operating result for the year to net cash (used in)/ provided by operating activities

	2017	2016
	\$	\$
Operating result for the year	1,454,855	818,136
Adjustments for:		
Net investment income	(1,601,980)	(788,265)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(415,730)	1,500,685
Increase/(decrease) in payables	87,737	(52,463)
Decrease in income in advance	(157,534)	(877,570)
(Decrease)/increase in provision for notified claims	(1,780,702)	321,468
Net cash (used in)/ provided by operating activities	(2,413,354)	921,991

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

C2 FINANCIAL INSTRUMENTS**Recognition**

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Fund becomes party to the contractual provisions of the financial instrument.

Classification

Financial instruments are classified and measured as follows:

- Investments – fair value through profit or loss
- Receivables – held at amortised cost
- Payables – held at amortised cost
- Cash and cash equivalents – fair value through profit or loss

The Fund does not enter into transaction for speculative purposes, nor for hedging.

C3 RECEIVABLES

Interest receivable represents interest accruals for amounts received in the month after balance date.

The Fund has brought to account fines and cost recoveries receivable from practitioners. These receivables have been recognised on an accruals basis and are carried at actual amounts and the collectability of trade debtors is assessed at reporting date with allowance being made for impairment.

	2017	2016
	\$	\$
Interest receivable	1,067	522
Practitioner levies receivable from QLS	752,115	336,930
	753,182	337,452

C4 INVESTMENTS

Investments held 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.

	2017	2016
	\$	\$
Investment in managed funds	29,289,995	29,088,265

The portfolio of financial instruments held consists of investment in managed funds. The fair value of the financial instruments is determined using net asset value of the managed funds.

Investments include units in the following managed portfolios:

- CBA Liquidity Reserve
- CBA Strategic Reserve
- CBA Investment Reserve

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

C5 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

	2017	2016
	\$	\$
Other payables and accruals	115,491	30,788
Payable to QLS for annual leave entitlements	19,843	18,724
Payable to QLS for long service leave entitlements	45,698	43,783
	181,032	93,295

C6 INCOME IN ADVANCE

Income in advance relates to Fidelity Fund levies collected from the profession in relation to the upcoming insurance year. Levies are collected by the Queensland Law Society Incorporated on behalf of the Fund. Current year levies in advance relate to collections in May and June 2017 paid to the Fund by the Society for the financial year 1 July 2017 to 30 June 2018.

	2017	2016
	\$	\$
Fidelity Guarantee Fund levies for upcoming year	769,096	926,630

C7 PROVISION FOR NOTIFIED CLAIMS

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Notified claims represent the estimated liability in relation to claims which have been notified but not yet admitted as a claim. Claims are brought to account in the year they are notified.

	2017	2016
	\$	\$
Opening notified claims	2,661,974	2,340,506
Add notified claims received	1,190,038	2,592,961
Less reversal of notified claims	(270,135)	(622,133)
Less payment of notified claims	(2,700,605)	(1,649,360)
	881,272	2,661,974

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of claims liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including likely assessments of each claim based on facts present. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Other than provision for notified claims disclosed in Note C7, the entity has made no judgements or assumptions which may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

D2 FINANCIAL RISK MANAGEMENT

The Fund's financial instruments consist mainly of deposits with banks and investment in managed funds. The Fund's activities expose it to a variety of financial risks: market risk (price and interest rate risk) and liquidity risk.

Price and interest rate risk

The Fund is exposed to equity securities price risk arising from the investments. 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.

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

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 against the budget. These are monitored in conjunction with available cash and investments readily convertible to cash.

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

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to and forming part of the financial statements for the year ended 30 June 2017

D2 FINANCIAL RISK MANAGEMENT (continued)**Sensitivity analysis**

The Fund has performed a sensitivity analysis relating to its exposure to interest rate risk, and price risk at the end of the reporting period. The sensitivity analysis demonstrates the effect on the current year profit which could result from a change in these risks.

	2017	2016
	\$	\$
Interest rate sensitivity analysis:		
At 30 June, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:		
Change in profit		
Increase in interest rate by 1%	13,882	24,591
Decrease in interest rate by 1%	(13,882)	(24,951)

	2017	2016
	\$	\$
Price sensitivity analysis:		
At 30 June, the effect on profit as a result of changes in the unit price of managed funds, with all other variables remaining constant would be as follows:		
Change in profit		
Increase in managed funds unit price by 5%	1,422,178	1,409,927
Decrease in managed funds unit price by 5%	(1,422,178)	(1,408,536)

D3 EVENTS AFTER BALANCE DATE AND CONTINGENT LIABILITIES

There were no known contingent liabilities at 30 June 2017. There are no events subsequent to reporting date requiring disclosure in the financial report.

D4 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

New or amended Australian Accounting Standards issued with future commencement dates are not expected to have a material impact on the Fund.

E1 FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

Changes in Accounting Policy

The Fund did not voluntarily change any of its accounting policies during 2016-17.

Accounting Standards Early Adopted

No Australian Accounting Standards have been early adopted 2016-17.

E2 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 Taxation 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. Receivables and payables are stated with the amount of GST included.

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.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Management Certificate for the year ended 30 June 2017

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), section 43 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 prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
- b. the financial statements have been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Legal Practitioners' Fidelity Guarantee Fund for the financial year ended 30 June 2017 and of the financial position of the Fund as at the end of that year; and
- c. these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.



President
Queensland Law Society
Christine Smyth

31.8.17



Chief Executive Officer (Acting)
Queensland Law Society
Matthew Dunn

31.8.17

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Independent Auditor's Report**TO THE COUNCIL OF QUEENSLAND LAW SOCIETY INCORPORATED.**

Report on the audit of the financial report

OPINION

I have audited the accompanying financial report of Legal Practitioners' Fidelity Guarantee Fund.

In my opinion, the financial report:

- a) gives a true and fair view of the entity's financial position as at 30 June 2017, and its financial performance and cash flows for the year then ended; and
- b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

BASIS FOR OPINION

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

RESPONSIBILITIES OF THE COUNCIL 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 the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Council is also responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the entity or to otherwise cease operations.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal control.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2017:

- I received all the information and explanations I required; and
- In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.



Nick George
as delegate of the Auditor-General



Queensland Audit Office
Brisbane