

Queensland Law Society Incorporated
Legal Practitioners' Fidelity Guarantee Fund

FINANCIAL STATEMENTS



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LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

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Statement of Comprehensive Income For the year ended 30 June 2011

	NOTES	2011 \$	2010 \$
Revenue			
Practitioner fees	2	2,771,814	2,584,234
Interest on investments		796,007	482,882
Costs recovered	3	103,625	-
Total revenue		3,671,446	3,067,116
Expenses			
Administration expenses	4	28,968	28,233
Claims approved for payment		(24,046)	150,593
Notified claims		(5,286)	(332,314)
Claim costs		175,410	69,953
Expenses reimbursed to the Queensland Law Society	5	145,059	140,978
Receivership costs		20,022	5,701
Total expenses		340,127	63,144
Operating surplus		3,331,319	3,003,972
Other comprehensive income, net of tax		-	-
Total comprehensive income		3,331,319	3,003,972

Statement of Financial Position As at 30 June 2011

	NOTES	2011 \$	2010 \$
Current assets			
Cash and cash equivalents	11(a)	17,252,608	13,852,219
Receivables	6	92,125	121,884
Total current assets		17,344,733	13,974,103
Total assets			
		17,344,733	13,974,103
Current liabilities			
Payables	7	38,916	47,874
Income in advance	8	2,355,240	2,304,479
Provision for notified claims	9	1,995,030	2,000,316
Total current liabilities		4,389,186	4,352,669
Non-current liabilities			
Provisions	10	34,540	31,746
Total non-current liabilities		34,540	31,746
Total liabilities			
		4,423,726	4,384,415
Net assets			
		12,921,007	9,589,688
Equity			
Retained surplus		12,921,007	9,589,688
Total equity		12,921,007	9,589,688

Statement of Changes In Equity For the year ended 30 June 2011

	2011 \$	2010 \$
Balance at 1 July 2010	9,589,688	6,585,716
Operating surplus for the period	3,331,319	3,003,972
Balance at 30 June 2011	12,921,007	9,589,688

Statement of Cash Flows For the year ended 30 June 2011

	NOTES	2011 \$ Inflows (Outflows)	2010 \$ Inflows (Outflows)
Cash flows from operating activities			
Contributions by practitioners and cost recoveries		2,822,575	2,681,546
Claim payments and administration expenses		(249,759)	(1,145,911)
Interest received		827,573	414,998
Net cash provided by/(used in) operating activities	11(c)	3,400,389	1,950,633
Net increase/(decrease) in cash held		3,400,389	1,950,633
Cash at the beginning of the financial year		13,852,219	11,901,586
Cash at the end of the financial year	11(a)	17,252,608	13,852,219

The accompanying notes form part of these statements.

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

NOTES

Objectives and principal activities

The Queensland Law Society Incorporated ('the Society'), pursuant to s359 of the *Legal Profession Act 2007* ('the Act') is required to continue the existence of a fund called the Legal Practitioners' Fidelity Guarantee Fund (the 'Fund') as was required under s12 of the *Queensland Law Society Act 1952*.

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 contributions from legal practitioners.

1. Summary of significant accounting policies

(a) Statement of compliance

The Fund has prepared these financial statements in compliance with section 43 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 Australian accounting standards and interpretations. In addition, the financial statements comply with the Treasurer's Minimum Reporting Requirements for the year ending 30 June 2011 and other authoritative pronouncements.

Except where stated, the historical cost convention is used.

(b) 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.

(c) Revenue

Revenues are recognised at fair value of the consideration received net of any amount of GST payable to the ATO. Practitioner fees are recognised when payment is received. 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.

(d) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

1. Summary of significant accounting policies continued

(e) 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 and Term Deposit Account are interest bearing accounts which are readily convertible to cash on hand at the Society's option. These investments are brought to account at fair value as indicated in Note 11(a).

(f) 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 accrual basis and are carried at actual amounts and the collectability of trade debtors is assessed at reporting date and with provision being made for impairment.

(g) 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.

(h) Employee benefits

The Fund has no employees and as such there are no employee entitlements outstanding.

All employees are employed by the Queensland Law Society Incorporated and salary costs are reimbursed based on actual expenditure.

(i) Provision for notified claims

Claims are brought to account in the year they are notified.

(j) Income in advance

Income in advance relates to Fidelity Fund Levies collected from the profession in relation to the upcoming financial year (ie current year levies in advance relate to collections for the financial year 1 July 2011 to 30 June 2012).

(k) Judgements and assumptions

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.

(l) New and Revised Accounting Standards

The Fund did not voluntarily change any of its accounting policies during 2010-11.

AASB 2009 – 5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* included certain amendments to AASB 117 *Leases* that revised the criteria for classifying leases involving land and buildings. This amendment does not affect the Fund.

The Fund is not permitted to early adopt a new 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.

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

1. Summary of significant accounting policies continued

(l) New and Revised Accounting Standards continued

At the date of authorisation of the financial report, significant impacts of new or amended Australian accounting standards with future commencement dates are as set out below.

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]* becomes effective from reporting periods beginning on or after 1 January 2011. The Fund will then need to make changes to its disclosures about credit risk on financial instruments in note 22(c). No longer will the Fund need to disclose amounts that best represent an entity's maximum exposure to credit risk where the carrying amount of the instruments reflects this. If the Fund holds collateral or other credit enhancements in respect of any financial instrument, it will need to disclose – by class of instrument – the financial extent to which those arrangements mitigate the credit risk. There will be no need to disclose the carrying amount of financial assets for which the terms have been renegotiated, which would otherwise be past due or impaired.

AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129, & 1052]* apply to reporting periods beginning on or after 1 July 2013.

AASB1053 establishes a differential reporting framework for those entities that prepare general purpose financial statements, consisting of two tiers of reporting requirements – Australian Accounting Standards (commonly referred to as “tier 1”), and Australian Accounting Standards – Reduced Disclosure Requirements (commonly referred to as “tier 2”).

Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier one. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

Treasury Department has advised that its policy decision is to require all entities captured within the whole-of-government financial reports to adopt tier 1 reporting requirements. In compliance with Treasury's policy which prohibits the early adoption of new or revised accounting standards unless Treasury approval is granted, the Fund has not early adopted AASB 1053.

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

2. Practitioner fees

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 levy each practitioner \$355 (2010 – \$345) in accordance with s156 of the Act.

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

3. Costs recovered

	2011	2010
	\$	\$
Recoveries from practitioners	103,625	-
	103,625	-

4. Administration expenses

	2011	2010
	\$	\$
Audit fees – Fidelity Fund	11,000	10,419
Bank charges	260	189
Payroll tax	4,964	4,847
Rent and electricity	12,000	12,000
Telephone	744	778
	28,968	28,233

5. Expenses reimbursed to the Queensland Law Society Incorporated

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.

	2011	2010
	\$	\$
Administration fees – fixed fee	36,000	36,000
Administration fees – reimbursement of costs	109,059	104,978
	145,059	140,978

6. Receivables

	2011	2010
	\$	\$
Interest receivable	88,370	117,070
GST receivable	1,249	1,948
Other receivables	2,506	2,866
	92,125	121,884

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

7. Payables

	2011	2010
	\$	\$
Approved claims	4,330	28,376
Other payables and accruals	19,403	5,814
Payables to Queensland Law Society	15,183	13,684
	38,916	47,874

8. Income in advance

	2011	2010
	\$	\$
Fidelity guarantee fee for upcoming year	2,355,240	2,304,479
	2,355,240	2,304,479

Levies are collected by the Queensland Law Society Incorporated on behalf of the Fund. The levies collected in May and June 2011 relating to the 2011/12 year were paid to the Fund in June 2011. As a result, this is shown as income in advance.

9. Provision for notified claims

	2011	2010
	\$	\$
Notified claims	1,995,030	2,000,316
	1,995,030	2,000,316

Notified claims represent the estimated liability in relation to claims which have been notified but not yet admitted as a claim. Once the claim has been admitted, they are disclosed as approved claims included in Note 7.

10. Provisions

	2011	2010
	\$	\$
Non-current		
Payable to Queensland Law Society	34,540	31,746
	34,540	31,746

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

11. Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, 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:

	2011	2010
	\$	\$
Cash assets	1,766,885	2,311,080
Cash deposit account	1,935,723	3,965,865
Term deposit account	13,550,000	7,575,274
	17,252,608	13,852,219

(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/(used in) operating activities to the operating surplus/(deficit) for the year

	2011	2010
	\$	\$
Operations surplus/(deficit)	3,331,319	3,003,972
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in receivables	29,759	(69,213)
(Decrease)/increase in creditors & claims	39,311	(984,126)
Net cash provided by/(used in) operating activities	3,400,389	1,950,633

12. Contingent liabilities

There are no known contingencies at balance date. (2010 – nil)

13. Operating lease expense commitments

The Fund has no operating lease commitments. (2010 – nil)

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

14. 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 any foreign currency risk.

(b) Price and interest rate risk

The funds are invested in reputable Australian banks. Investments include fixed term deposits which are not subject to interest rate or price risk.

(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.

Credit risk arising on funds placed on term deposit is managed by ensuring funds are only placed with reputable institutions.

(i) Financial assets that are neither past due or impaired

At the Statement of Financial Position date no financial assets are past due or impaired.

(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 investments to ensure that there are sufficient cash and liquid deposits to meet its estimated outflows.

As at Statement of Financial Position date, the Fund's financial liabilities are all current.

(e) Interest rate sensitivity

The Fund does not hold any financial instruments subject to interest rate variability.

(f) Fair value

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

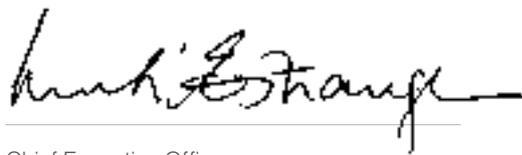
Declaration of Legal Practitioners' Fidelity Guarantee Fund

The foregoing financial statements have been prepared pursuant to s365 of the *Queensland Legal Profession Act 2007*, 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 Legal Practitioners' Fidelity Guarantee Fund; and
- (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; and
 - (ii) the foregoing 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 Legal Practitioners' Fidelity Guarantee Fund for the financial year ended 30 June 2011 and of the financial position as at the close of that year.



President
Bruce Doyle



Chief Executive Officer
Noela L'Estrange

31 August 2011

Independent Auditor's Report

To the Legal Practitioners' Fidelity Guarantee Fund

Report on the Financial Report

I have audited the accompanying financial report of the Legal Practitioners' Fidelity Guarantee Fund, which comprises the Statement of Financial Position as at 30 June 2011, 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 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 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 judgement, 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 only be removed 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

To the Legal Practitioners' Fidelity Guarantee Fund

Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

- (a) I have received all the information and explanations which I have required; and
- (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; and
 - (ii) the financial report presents 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 1 July 2010 to 30 June 2011 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 the Legal Practitioners' Fidelity Guarantee Fund for the year ended 30 June 2011. Where the financial report is included on Queensland Law Society Incorporated's website the Council is responsible for the integrity of Queensland Law Society Incorporated's website and I have not been engaged to report on the integrity of Queensland Law Society Incorporated'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.



Gary Paul SMITH, FCPA
(as Delegate of the Auditor-General of Queensland)

31 August 2011

Brisbane