

FINANCES

LEGAL

PRACTITIONERS'

FIDELITY

GUARANTEE

FUND

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*All amounts are denoted in Australian currency.

Legal Practitioners' Fidelity Guarantee Fund

Statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Revenue			
Practitioner levies	2	1,987,993	3,750,092
Interest on investments		348,687	927,861
Unrealised gains/(losses) on investments		788,265	-
Costs recovered		5,900	76
Net reversal of notified claims	8	622,133	166,911
Total revenue		3,752,978	4,844,940
Expenses			
Administration expenses	3	73,926	52,206
Notified claims	8	2,592,961	1,597,694
Claim costs		13,362	127,416
Expenses reimbursed to the Queensland Law Society	4	254,593	171,491
Total expenses		2,934,842	1,948,807
Operating result for the year		818,136	2,896,133
Other comprehensive income		-	-
Total comprehensive income for the year		818,136	2,896,133

Legal Practitioners' Fidelity Guarantee Fund

Statement of financial position as at 30 June 2016

	Notes	2016 \$	2015 \$
Current assets			
Cash and cash equivalents	9(a)	1,554,824	28,932,833
Investments	10	29,088,265	-
Receivables	5	337,452	1,838,137
Total current assets		30,980,541	30,770,970
Total assets			
		30,980,541	30,770,970
Current liabilities			
Payables	6	93,295	145,758
Income in advance	7	926,630	1,804,200
Provision for notified claims	8	2,661,974	2,340,506
Total current liabilities		3,681,899	4,290,464
Total liabilities			
		3,681,899	4,290,464
Net assets			
		27,298,642	26,480,506
Equity			
Accumulated surplus		27,298,642	26,480,506
Total equity		27,298,642	26,480,506

Legal Practitioners' Fidelity Guarantee Fund

Statement of changes in equity for the year ended 30 June 2016

	2016 \$	2015 \$
Accumulated Surplus		
Balance at 1 July	26,480,506	23,584,373
Total comprehensive income for the year	818,136	2,896,133
Balance at 30 June	27,298,642	26,480,506

Statement of cash flows for the year ended 30 June 2016

	Notes	2016 \$	2015 \$
		Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities			
Contributions by practitioners and cost recoveries		2,595,170	329,225
Claim payments and administration expenses		(2,043,704)	(358,595)
Interest received		370,525	1,046,098
Net cash provided by operating activities	9(c)	921,991	1,016,728
Cash flows from investing activities			
Payments for investments		(28,300,000)	-
Net cash used in investing activities		(28,300,000)	-
Net (decrease)/increase in cash and cash equivalents held		(27,378,009)	1,016,728
Cash and cash equivalents at the beginning of the financial year		28,932,833	27,916,105
Cash and cash equivalents at the end of the financial year	9(a)	1,554,824	28,932,833

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

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 maintain the Legal Practitioners' Fidelity Guarantee Fund (the 'Fund'). 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.

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 Queensland Treasury's Minimum Reporting Requirements for the year ending 30 June 2016.

With respect to compliance with Australian Accounting Standards and Interpretations, the Fund has applied those requirements applicable to not-for-profit entities, as the Fund is a not-for-profit body. 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 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.

c. Revenue

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

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 Fund's option.

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

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 allowance 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. 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 transactions for speculative purposes, nor for hedging.

i. 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.

j. 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.

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 value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

j. Fair value measurement (continued)

- 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.

k. Provision for notified claims

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

l. Income in advance

Income in advance relates to Fidelity Fund Levies collected from the profession in relation to the upcoming financial year. Current year levies in advance relate to collections for the financial year 1 July 2016 to 30 June 2017.

m. Judgements and assumptions

Other than provision for notified claims disclosed in Note 8, 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.

n. New and revised accounting standards

i. First year application of new accounting standards or change in accounting policy

Two Australian Accounting Standards have been early adopted for the 2015-16 year as required by Queensland Treasury. These are:

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049]

AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities [AASB 13]

The adoption of these two new accounting standards has no material impact on this financial report.

ii. Future impact of accounting standards not yet effective

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards issued but with future commencement dates are:

AASB 15 Revenue from Contracts with Customers

This Standard will become effective from reporting periods beginning on or after 1 January 2018 and contains much more detailed requirements for the accounting for certain types of revenue from customers. Depending on the specific contractual terms, the new requirements may potentially result in a change to the timing of revenue from sales of the Fund's goods and services, such that some revenue may need to be deferred to a later reporting period to the extent that the Fund has received cash but has not met its associated obligations (such amounts would be reported as a liability (unearned revenue) in the meantime). The Fund is yet to complete its analysis of current arrangements for sale of its goods and services, but at this stage does not expect a significant impact on its present accounting practices.

AASB 16 Leases

This Standard will become effective for reporting periods beginning on or after 1 January 2019. When applied, the standard supersedes AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases – Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard will not have an impact on the Fund as it does not have any lease arrangements.

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

2. Practitioner levies

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 \$200 (2015: \$390) in accordance with s156 of the Act.

3. Administration expenses

	2016	2015
	\$	\$
Advertising	6,529	-
Actuarial fees	18,850	-
Audit fees – Fidelity Fund	10,000	9,800
Bank charges	13,875	14,859
Payroll tax	5,261	5,221
Printing and stationary	141	-
Professional consulting fees	-	9,000
Rent and electricity	14,124	12,000
Registration and memberships	645	627
Telephone	635	699
Travel	3,498	-
Sundry expenses	368	-
	73,926	52,206

Total audit fees paid and payable to the Queensland Audit Office to perform the audit of the Fund's financial statement for 2015-16 are estimated to be \$10,000 (2015: \$9,800). There are no non-audit services included in this amount.

4. Expenses reimbursed to 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.

	2016	2015
	\$	\$
Administration fees	142,772	58,354
Administration fees – reimbursement of payroll costs	111,821	113,137
	254,593	171,491

5. Receivables

	2016	2015
	\$	\$
Interest receivable	522	22,360
Practitioner levies receivable from Queensland Law Society	336,930	1,814,145
Other receivables	-	1,632
	337,452	1,838,137

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

6. Payables

	2016	2015
	\$	\$
Other payables and accruals	30,788	86,761
Payable to Queensland Law Society for annual leave entitlements	18,724	17,018
Payable to Queensland Law Society for long service leave entitlements	43,783	41,979
	93,295	145,758

7. Income in advance

	2016	2015
	\$	\$
Fidelity guarantee levies for upcoming year	926,630	1,804,200

Levies are collected by the Queensland Law Society Incorporated on behalf of the Fund. The levies collected in May and June 2016 relating to the 2016-17 year were paid to the Fund by Queensland Law Society.

8. Provision for notified claims

	2016	2015
	\$	\$
Opening notified claims	2,340,506	961,420
Add notified claims received	2,592,961	1,597,694
Less reversal of notified claims	(622,133)	(166,911)
Less payment of notified claims	(1,649,360)	(51,697)
	2,661,974	2,340,506

Notified claims represent the estimated liability in relation to claims which have been notified but not yet admitted as a claim.

9. 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:

	2016	2015
	\$	\$
Cash assets	608,103	401,821
Cash deposit account	946,721	25,731,012
Term deposit account	-	2,800,000
Total cash and cash equivalents	1,554,824	28,932,833

Legal Practitioners' Fidelity Guarantee Fund

Notes to and forming part of the financial statements for the year ended 30 June 2016

9. Notes to the statement of cash flows (continued)

b. Financing facilities

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

c. Reconciliation of the operating result for the year to net cash provided by operating activities

	2016	2015
	\$	\$
Operating result for the year	818,136	2,896,133
Adjustments for:		
Net investment income	(788,265)	-
Changes in assets and liabilities:		
Increase/(decrease) in receivables	1,500,685	(1,695,176)
(Decrease)/increase in payables	(52,463)	44,215
(Decrease)/increase in income in advance	(877,570)	(1,607,530)
Increase/(decrease) in provision for notified claims	321,468	1,379,086
Net cash provided by operating activities	921,991	1,016,728

10. Investments

	2016	2015
	\$	\$
Investment in managed funds	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 2016

11. 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.

a. 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.

b. 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.

c. 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.

	2016	2015
	\$	\$
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%	24,591	289,328
decrease in interest rate by 1%	(24,951)	(289,328)

	2016	2015
	\$	\$
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%	1,409,927	-
decrease in managed funds unit price by 5%	(1,408,536)	-

12. Contingent liabilities

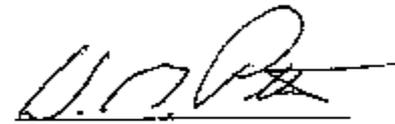
There were no known contingent liabilities at 30 June 2016.

Legal Practitioners' Fidelity Guarantee Fund

**Management Certificate
for the year ended 30 June 2016**

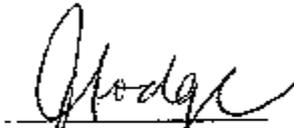
These general purpose financial statements have been prepared pursuant to *section 62(1) of the Financial Accountability Act 2009* (the Act), *section 43 of the Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with *Section 62(1)(b) of the Act* we certify 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 2016 and of the financial position of the Fund as at the end 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
William Poits

29/08/2016



Chief Executive Officer
Queensland Law Society
Amelia Hodge

29/8/16

Independent Auditor's Report

To the Council of Queensland Law Society Incorporated

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 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and certificates given by the President and Chief Executive Officer of the Queensland Law Society Incorporated.

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 the 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 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 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 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

To the Council of Queensland Law Society Incorporated

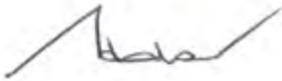
Opinion

In accordance with s40 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 2015 to 30 June 2016 and of the financial position as at the end of that year.

Other Matters – electronic presentation of the audited financial report

Those viewing an electronic presentation of these financial statements should note that audit does not provide assurance on the integrity of the information presented electronically and does not provide an opinion on any information which may be hyperlinked to or from the financial statements. If users of the financial statements are concerned with the inherent risks arising from electronic presentation of information, they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.



R W Hodson CPA

as Delegate of the Auditor-General of Queensland

Queensland Audit Office
Brisbane

