

## Financial statements

# Legal Practitioners' Fidelity Guarantee Fund

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## Statement of comprehensive income for the year ended 30 June 2012

	NOTES	2012 \$	2011 \$
<b>Revenue</b>			
Practitioner fees	2	2,964,594	2,771,814
Interest on investments		1,019,624	796,007
Costs recovered	3	64,349	103,625
<b>Total revenue</b>		<b>4,048,567</b>	<b>3,671,446</b>
<b>Expenses</b>			
Administration expenses	4	28,882	28,968
Claims approved for payment		434,370	(24,046)
Notified claims		(16,600)	(5,286)
Claim costs		79,273	175,410
Expenses reimbursed to Queensland Law Society	5	156,730	145,059
Receivership costs		3,465	20,022
<b>Total expenses</b>		<b>686,120</b>	<b>340,127</b>
<b>Operating surplus</b>		<b>3,362,447</b>	<b>3,331,319</b>
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income</b>		<b>3,362,447</b>	<b>3,331,319</b>

## Statement of financial position as at 30 June 2012

	NOTES	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	11(a)	20,913,187	17,252,608
Receivables	6	262,550	92,125
<b>Total current assets</b>		<b>21,175,737</b>	<b>17,344,733</b>
<b>Total assets</b>			
		<b>21,175,737</b>	<b>17,344,733</b>
<b>Current liabilities</b>			
Payables	7	46,775	38,916
Income in advance	8	2,831,750	2,355,240
Provision for notified claims	9	1,978,430	1,995,030
<b>Total current liabilities</b>		<b>4,856,955</b>	<b>4,389,186</b>
<b>Non-current liabilities</b>			
Provisions	10	35,328	34,540
<b>Total non-current liabilities</b>		<b>35,328</b>	<b>34,540</b>
<b>Total liabilities</b>			
		<b>4,892,283</b>	<b>4,423,726</b>
<b>Net assets</b>			
		<b>16,283,454</b>	<b>12,921,007</b>
<b>Equity</b>			
Retained surplus		16,283,454	12,921,007
<b>Total equity</b>		<b>16,283,454</b>	<b>12,921,007</b>

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 2011	12,921,007	9,589,688
Operating surplus for the period	3,362,447	3,331,319
<b>Balance at 30 June 2012</b>	<b>16,283,454</b>	<b>12,921,007</b>

## Statement of cash flows for the year ended 30 June 2012

		2012	2011
		\$	\$
	NOTES	Inflows (outflows)	Inflows (outflows)
<b>Cash flows from operating activities</b>			
Contributions by practitioners and cost recoveries		3,441,104	2,822,575
Claim payments and administration expenses		(628,058)	(249,759)
Interest received		847,533	827,573
<b>Net cash provided by/(used in) operating activities</b>	<b>11(c)</b>	<b>3,660,579</b>	<b>3,400,389</b>
Net increase/(decrease) in cash held		3,660,579	3,400,389
Cash at the beginning of the financial year		17,252,608	13,852,219
<b>Cash at the end of the financial year</b>	<b>11(a)</b>	<b>20,913,187</b>	<b>17,252,608</b>

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 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 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 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. Taxation

The Fund is exempt from income tax by virtue of Sections 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 effect 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 judgments 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.

##### 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).

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

### 1. Summary of significant accounting policies (continued)

#### f. Receivables

Interest receivable represents interest accruals for amounts received in the month after the 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 the 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 2012 to 30 June 2013).

#### k. Judgments and assumptions

The entity has made no judgments 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 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. One of the footnotes to Note 4 Administration Expenses, regarding audit fees, has been slightly amended to identify the Fund's auditor and clarify the nature of the work performed by the auditor.

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 or 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 2012

### 1. Summary of significant accounting policies (continued)

#### I. New and revised accounting standards (continued)

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
- 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 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 \$365 (2011 – \$355) in accordance with s156 of the Act.

### 3. Costs recovered

	2012	2011
	\$	\$
Recoveries from practitioners	64,349	103,625
	<b>64,349</b>	<b>103,625</b>

### 4. Administration expenses

	2012	2011
	\$	\$
Audit fees – Fidelity Fund	10,830	11,000
Bank charges	261	260
Payroll tax	4,989	4,964
Rent and electricity	12,000	12,000
Telephone	802	744
	<b>28,882</b>	<b>28,968</b>

Total 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 \$11,700 (2011: \$11,720). There are no non-audit services included in this amount.

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

### 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.

	2012	2011
	\$	\$
Administration fees – fixed fee	36,000	36,000
Administration fees – reimbursement of costs	120,730	109,059
	<b>156,730</b>	<b>145,059</b>

### 6. Receivables

	2012	2011
	\$	\$
Interest receivable	260,461	88,370
GST receivable	-	1,249
Other receivables	2,089	2,506
	<b>262,550</b>	<b>92,125</b>

### 7. Payables

	2012	2011
	\$	\$
Approved claims	19,242	4,330
Other payables and accruals	11,700	19,403
Payables to Queensland Law Society	15,833	15,183
	<b>46,775</b>	<b>38,916</b>

### 8. Income in advance

	2012	2011
	\$	\$
Fidelity guarantee fee for upcoming year	2,831,750	2,355,240
	<b>2,831,750</b>	<b>2,355,240</b>

Levies are collected by the Queensland Law Society Incorporated on behalf of the Fund. The levies collected in May and June 2012 relating to the 2012/13 year were paid to the fund in June 2012. As a result, this is shown as income in advance.

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

9. Provision for notified claims	2012	2011
	\$	\$
Notified claims	1,978,430	1,995,030
	<b>1,978,430</b>	<b>1,995,030</b>

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	2012	2011
	\$	\$
<b>Non-current</b>		
Payable to Queensland Law Society	35,328	34,540
	<b>35,328</b>	<b>34,540</b>

### 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:

	2012	2011
	\$	\$
Cash assets	287,991	1,766,885
Cash deposit account	4,075,196	1,935,723
Term deposit account	16,550,000	13,550,000
	<b>20,913,187</b>	<b>17,252,608</b>

#### 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

	2012	2011
	\$	\$
Operations surplus/(deficit)	3,362,447	3,331,319
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in receivables	(170,425)	29,759
(Decrease)/increase in creditors and claims	468,557	39,311
Net cash provided by/(used in) operating activities	<b>3,660,579</b>	<b>3,400,389</b>

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

### 12. Contingent liabilities

There are no known contingencies at balance date. (2011 – nil)

### 13. Operating lease expense commitments

The Fund has no operating lease commitments. (2011 – nil)

### 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 the 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.

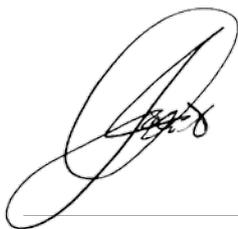
#### f. Fair value

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.
- 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 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 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 Legal Practitioners' Fidelity Guarantee Fund

## Report on the financial report

I have audited the accompanying financial report of Legal Practitioners' Fidelity Guarantee 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. 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 Legal Practitioners' Fidelity Guarantee 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 Legal Practitioners' Fidelity Guarantee Fund for the year ended 30 June 2012. Where the financial report is included on the Legal Practitioners' Fidelity Guarantee Fund's website the Council is responsible for the integrity of the Legal Practitioners' Fidelity Guarantee Fund's website and I have not been engaged to report on the integrity of the Legal Practitioners' Fidelity Guarantee 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