Queensland Law Society Incorporated

*All amounts are denoted in Australian currency.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Comprehensive Income for the year ended 30 June 2019

	NOTE	Consolidated 2019 Actual $'000	Consolidated 2018 Actual $'000	Parent Entity 2019 Actual $'000	Parent Entity 2018 Actual $'000
Revenue					
Fees and membership services	B1-1	17,282	16,448	17,299	16,463
Rent and administration revenue	B1-2	461	927	983	1,160
Grants and funding	B1-3	209	229	731	680
Insurance levies	B1-4	23,019	22,026	-	-
Investment income	B1-5	7,329	7,192	725	635
Realised gains/(losses) on investments	C4	320	3,394	-	-
Fair value gains/(losses) on investments	C4	(566)	(3,123)	-	-
Other income		231	203	272	183
Total revenue		**48,285**	**47,296**	**20,010**	**19,121**
Expenses					
Membership services and events	B2-1	2,607	2,861	2,547	2,861
Administration expenses	B2-2	7,120	6,358	4,290	3,758
Employee expenses	B2-3	13,940	13,986	10,873	11,144
Depreciation and amortisation	C5	1,241	1,001	1,189	960
Insurance claims	B1-4	17,930	18,404	-	-
Unearned premium reserves	C8-2(b)	1,178	(1,152)	-	-
Reinsurance costs	B1-4	1,265	1,156	-	-
Stamp duty	B1-4	1,855	1,666	-	-
Brokerage fees		130	130	-	-
Total expenses		**47,266**	**44,410**	**18,899**	**18,723**
Operating surplus before income tax		**1,019**	**2,886**	**1,111**	**398**
Income tax credit	F1-1	804	471	-	-
Operating surplus after income tax		**1,823**	**3,357**	**1,111**	**398**
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to operating result Increase/(decrease) in asset revaluation surplus	C5	106	10,492	106	10,492
Total comprehensive income		**1,929**	**13,849**	**1,217**	**10,890**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Financial Position as at 30 June 2019

	NOTE	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent Entity 2019 $'000	Parent Entity 2018 $'000
Current assets					
Cash and cash equivalents	C1	67,970	61,404	33,398	32,674
Receivables	C2	882	1,951	564	679
Income tax receivable	F1-2	271	1,039	-	-
Reinsurers' share of unearned premiums	C8-2(b)	1,366	1,200	-	-
Insurance contract liabilities ceded	C8-2(a)	93	325	-	-
Total current assets		**70,582**	**65,919**	**33,962**	**33,353**
Non-current assets					
Investment in controlled entities	C3	-	-	19,000	19,000
Investments	C4	180,559	174,612	-	-
Property, plant and equipment	C5	30,128	30,739	30,011	30,627
Deferred tax assets	F1-3	4,986	4,183	-	-
Insurance contract liabilities ceded	C8-2(a)	638	652	-	-
Total non-current assets		**216,311**	**210,186**	**49,011**	**49,627**
TOTAL ASSETS		**286,893**	**276,105**	**82,973**	**82,980**
Current liabilities					
Payables	C6	40,965	39,498	16,018	17,136
Accrued employee benefits	C7	1,457	1,486	970	1,060
Unearned premium reserves	C8-2(b)	6,538	5,360	-	-
Provision for outstanding claims	C8-2(a)	15,635	15,604	-	-
Total current liabilities		**64,595**	**61,948**	**16,988**	**18,196**
Non-current liabilities					
Accrued employee benefits	C7	208	230	186	202
Provision for outstanding claims	C8-2(a)	63,179	56,945	-	-
Total non-current liabilities		**63,387**	**57,175**	**186**	**202**
TOTAL LIABILITIES		**127,982**	**119,123**	**17,174**	**18,398**
NET ASSETS		**158,911**	**156,982**	**65,799**	**64,582**
EQUITY					
Accumulated surplus		133,428	131,605	40,316	39,205
Asset revaluation surplus		25,483	25,377	25,483	25,377
TOTAL EQUITY		**158,911**	**156,982**	**65,799**	**64,582**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Changes in Equity for the year ended 30 June 2019

Consolidated	NOTE	Asset Revaluation Surplus	Accumulated Surplus	TOTAL
		$'000	$'000	$'000
Balance as at 1 July 2017		**14,885**	**128,248**	**143,133**
Operating result				
Operating surplus after income tax		-	3,357	3,357
Other comprehensive income				
Increase in asset revaluation surplus	C5-1	10,492	-	10,492
Balance as at 30 June 2018		**25,377**	**131,605**	**156,982**
Operating result				
Operating surplus after income tax		-	1,823	1,823
Other comprehensive income				
Increase in asset revaluation surplus	C5-1	106	-	106
Balance as at 30 June 2019		**25,483**	**133,428**	**158,911**

Parent Entity	NOTE	Asset Revaluation Surplus	Accumulated Surplus	TOTAL
		$'000	$'000	$'000
Balance as at 1 July 2017		**14,885**	**38,807**	**53,692**
Operating result				
Operating surplus after income tax		-	398	398
Other comprehensive income				
Increase in asset revaluation surplus	C5-2	10,492	-	10,492
Balance as at 30 June 2018		**25,377**	**39,205**	**64,582**
Operating result				
Operating surplus after income tax		-	1,111	1,111
Other comprehensive income				
Increase in asset revaluation surplus	C5-2	106	-	106
Balance as at 30 June 2019		**25,483**	**40,316**	**65,799**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statement of Cash Flows for the year ended 30 June 2019

	NOTE	Consolidated 2019 $'000	Consolidated 2018 $'000	Parent Entity 2019 $'000	Parent Entity 2018 $'000
Cash flows from operating activities					
Receipts from the profession		39,984	39,407	18,559	17,414
Receipts from commissions and funding		371	451	893	902
Payments to suppliers and employees		(24,547)	(23,496)	(16,999)	(15,081)
Receipts collected for Society entities		-	-	23,019	22,026
Payments to Society entities		-	-	(23,954)	(42,013)
Receipts collected for Legal Practitioners' Fidelity Guarantee Fund		379	480	379	480
Payments to Legal Practitioners' Fidelity Guarantee Fund		(379)	(1,235)	(379)	(1,235)
Reinsurance payments		(1,266)	(1,156)	-	-
Claims and claims related payments		(10,609)	(18,784)	-	-
Interest received		1,071	896	725	635
GST receipts		3,419	3,220	995	966
GST paid to ATO		(2,102)	(1,331)	(2,046)	(1,179)
Income tax paid	F1-2	769	(100)	-	-
Net cash (used in)/generated from operating activities	**C1**	**7,090**	**(1,648)**	**1,192**	**(17,085)**
Cash flows from investing activities					
Purchase of investments	C4	(36,027)	(77,168)	-	-
Proceeds from investment redemptions	C4	36,027	81,516	-	-
Cash distributions received		-	1	-	-
Proceeds from disposal of property, plant and equipment		-	38	-	40
Payments for property, plant and equipment	C5	(524)	(175)	(468)	(160)
Net cash generated from/(used in) investing activities		**(524)**	**4,212**	**(468)**	**(120)**
Net increase/(decrease) in cash and cash equivalents held		**6,566**	**2,564**	**724**	**(17,205)**
Cash and cash equivalents at the beginning of the year		**61,404**	**58,840**	**32,674**	**49,879**
Cash and cash equivalents at the end of the year	**C1**	**67,970**	**61,404**	**33,398**	**32,674**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION

A1-1 GENERAL INFORMATION

The Queensland Law Society Incorporated ('QLS', or 'the Society') is the professional association for solicitors in Queensland constituted under the *Legal Profession Act 2007* (Qld) (the Act). While the Society is defined as a statutory body under the *Financial Accountability Act 2009*, it remains an independent professional body, subject to the governance of its elected Council.

A1-2 COMPLIANCE WITH PRESCRIBED REQUIREMENTS

The Group has prepared these financial statements in compliance with section 43 of the *Financial and Performance Management Standard 2009*. The financial statements comply with the Queensland Treasury's minimum Financial Reporting Requirements (FRR) for reporting periods beginning on or after 1 July 2018.

The Society 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.

New accounting standards early adopted and/or applied for the first time in these financial statements are outlined in Note E3.

A1-3 PRESENTATION

Currency and rounding

Amounts included in the financial statements are in Australian dollars and rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Comparatives

Comparative information reflects the audited 2017-18 financial statements and has been restated where necessary to be consistent with disclosures in the current reporting period.

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 Group 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 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements are authorised for issue by the President and Chief Executive Officer of the Society at the date of signing the management certificate.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-5 BASIS OF MEASUREMENT

Historical cost is used as the measurement basis in this financial report except for the following:

- strata title building which is measured at fair value;
- investments which are measured at fair value; and
- accrued employee benefits expected to be settled 12 or more months after reporting date, which are measured at their present value.

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

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.

Fair value is determined using one of the following three approaches:

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
- The *cost approach* reflects the amount that would be required currently to replace the service capacity of an asset. This method includes the current replacement cost methodology.
- The *income approach* converts multiple future cash flows amounts to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Where fair value is used, the fair value approach is disclosed.

Observable inputs are publicly available data that are relevant to the characteristics of the assets/liabilities being valued. Observable inputs used by the Society include, but are not limited to, published sales data for land and general office buildings.

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 Society include, but are not limited to, subjective adjustments made to observable data to take account of the characteristics of the Society's assets/liabilities and assessments of physical condition and remaining useful life. 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.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-5 BASIS OF MEASUREMENT (continued)

All assets and liabilities of the Society 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.

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

The carrying value less impairment provision of current trade receivables and payables approximates to their fair value. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

There were no transfers of assets between fair value hierarchy levels during the period.

More specific fair value information about the Society's investments and strata title building is outlined in Notes C4 and C5, respectively.

Present value

Present value represents the present discounted value of the future net cash inflows that the item is expected to generate (in respect of assets) or the present discounted value of the future cash outflows expected to settle (in respect of liabilities) in the normal course of business.

A1-6 THE REPORTING ENTITY

The consolidated financial statements include all income, expenses, assets, liabilities and equity of the Society ('Parent Entity') and the entities it controls where these entities are material (refer to Note A3). The controlled entities are the Law Claims Levy Fund (LCLF) and Lexon Insurance Pte Ltd (Lexon). The Parent Entity and the controlled entities are referred to as 'the Group'. All transactions and balances internal to the Group have been eliminated in full.

The Parent Entity financial statements include all income, expenses, assets, liabilities and equity of the Society only.

A2 THE SOCIETY'S OBJECTIVES

The Society is responsible for specific statutory obligations under the *Legal Profession Act 2007* (Qld) which includes the issuance of practising certificates, maintenance of solicitors' records, and regulating the operation of solicitors' trust account records. The Society also provides membership services and events, continuing professional education, advisory support to members and the general public, and administers funds under the control of the Group, which extends to providing general insurance and services as licensed under the *Singapore Insurance Act*.

Major sources of income for the Group include annual fees for practising certificates and membership, continuing professional education to the legal profession, investment income, and insurance levies.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

A3 CONTROLLED ENTITIES

The Society wholly controlled the following entities at the reporting date:

Law Claims Levy Fund (LCLF): LCLF is responsible for the management of professional indemnity claims of practitioners for the years 1987 to 1995, and the administration of insurance matters (jointly with Lexon Insurance Pte Ltd) in accordance with the Queensland Law Society Indemnity Rule 2005. LCLF was wholly controlled for the whole year.

Lexon Insurance Pte Ltd (Lexon): This Company was established on 23 June 2001 in Singapore and is 100% owned by the Society. The principal activity of Lexon is that of a captive insurer providing professional indemnity insurance to members of the Queensland legal profession via a Master Policy with the Society. Lexon was wholly controlled for the whole year.

Details of controlled entities are outlined below:

2018-19 Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Results $m
Law Claims Levy Fund	100	83.1	23.0	25.7	2.2
Lexon Insurance Pte Ltd	100	162.0	109.9	21.7	(1.5)

2017-18 Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Results $m
Law Claims Levy Fund	100	79.6	21.8	24.4	3.5
Lexon Insurance Pte Ltd	100	154.3	100.7	22.8	(0.5)

Principles of consolidation

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences to the date control ceases. In the process of reporting the Group as a single economic entity, unrealised gains and losses, inter-entity balances resulting from transactions with or between controlled entities are eliminated on consolidation where material. The accounting policies have been consistently applied by each entity in the consolidated entity.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B1 REVENUE

B1-1 FEES AND MEMBERSHIP SERVICES

Memberships and practitioner fees are recognised as revenue within the period. Prepayment of fees is recognised as income in advance.

Membership services and events income is recognised as revenue when the service or event occurs.

Prepayment of membership services and events is recognised as income in advance.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Membership and practitioner fees				
Practising certificate fees	7,526	6,908	7,532	6,908
Member fees	5,330	5,111	5,336	5,121
Limitation of liability scheme	799	655	799	655
Specialist accreditation fee	264	246	264	246
Certificate of fitness	76	78	76	78
Late application levy	8	43	8	43
	14,003	13,041	14,015	13,051
Membership services and events				
Courses, conferences and events	2,160	2,219	2,165	2,224
Membership services and products	491	433	491	433
Advertising and subscriptions	256	303	256	303
Marketing and sponsorship	372	452	372	452
	3,279	3,407	3,284	3,412
Total fees and membership services	**17,282**	**16,448**	**17,299**	**16,463**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B1 REVENUE (continued)

B1-2 RENT AND ADMINISTRATION REVENUE

Rental revenue is recognised as income as it is received. Under the rules of the Act, certain operating expenses of the Society are recoverable from the Legal Practitioners' Fidelity Guarantee Fund (LPFGF) and the Legal Practitioners Admissions Board (LPAB).The gross amounts paid in the prior year were reimbursed to QLS by LPFGF and LPAB. From 2018-19 these expenses have been paid directly by the related entities.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Rent	266	255	271	262
Body corporate administration fee	15	15	15	15
Management fees				
Lexon Insurance Pte Ltd	-	-	465	184
Law Claims Levy Fund	-	-	52	42
Legal Practitioners' Fidelity Guarantee Fund	134	145	134	145
Legal Practitioners Admissions Board	46	512	46	512
Total rent and administration revenue	**461**	**927**	**983**	**1,160**

B1-3 GRANTS AND FUNDING

Grants, donations and gifts are non-reciprocal in nature and are recognised as revenue in the year in which the Society obtains control over them.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Queensland Law Foundation	209	229	209	229
Law Claims Levy Fund	-	-	522	451
Total grants and funding	**209**	**229**	**731**	**680**

Queensland Law Foundation (QLF) provided grants for a number of projects and initiatives to benefit members, including LawCare services, the annual Symposium, webinars, and regional workshops.

The Law Claims Levy Fund (LCLF) is reimbursing costs incurred by the Society for execution of discrete projects relating to risk management in the profession. This includes the development of resources and educational units designed to reduce the exposure of solicitors with respect to compensation and/or damages claims. These resources include legal project management, the QLS Legal Ethics Course and Solicitor Advocates Course, and publications for practice support and risk management.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B1 REVENUE (continued)

B1-4 INSURANCE LEVIES

Insurance levies are recognised as revenue at the commencement of the risk period covered by the policy and accrued proportionally over the period of coverage.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Insurance levies	23,019	22,026	-	-
Unearned premium reserve (Note C8-2(b))	(1,178)	1,152	-	-
Reinsurance costs	(1,265)	(1,156)	-	-
Net premium revenue	20,576	22,022	-	-
Claims expense	(19,258)	(19,335)	-	-
Reinsurance and other recoveries	1,328	931	-	-
Net claims incurred (Note C8-2(a))	(17,930)	(18,404)	-	-
Stamp duty	(1,855)	(1,666)	-	-
Underwriting expenses (Lexon administrative and operating expenses)	(6,099)	(5,460)	-	-
Underwriting result	**(5,308)**	**(3,508)**	**-**	**-**

B1-5 INVESTMENT INCOME

Distributions from investment income are recognised when declared by fund managers.

Realised gains/losses represent the net gains/losses on the sale of investments and are recognised when investments are sold during the course of the year. Fair value gains/losses are recognised monthly based on fluctuations in market prices of investments.

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.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Distributions from investments	6,258	6,296	-	-
Interest income	1,071	896	725	635
Total investment income	**7,329**	**7,192**	**725**	**635**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B2 EXPENSES

B2-1 MEMBERSHIP SERVICES AND EVENTS EXPENDITURE

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Direct membership services and events expenditure				
Courses, conferences and events	692	755	692	755
Membership products and services	534	749	534	749
Printing and publications	310	271	250	271
Law Council capitation fees	1,071	1,086	1,071	1,086
Total membership services and events expenditure	**2,607**	**2,861**	**2,547**	**2,861**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B2 EXPENSES (continued)

B2-2 ADMINISTRATION EXPENSES

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Indirect administration expenses				
Office administration and insurance	1,032	819	781	541
Actuarial fees	100	111	-	-
Audit fees * #	197	202	84	88
Bad debts	17	(45)	5	-
Body corporate, electricity, rates and taxes	446	593	441	584
Captive managers fee	99	96	-	-
Catering, functions and entertainment	171	184	113	165
Regulatory audits and investigations	23	28	23	28
Directors' fees	373	407	-	-
Bank fees and finance costs	126	142	135	145
Information technology and related costs	1,021	683	605	367
Investment management fees	514	397	-	-
Office rent	167	160	-	-
Presentations, donations and gifts	120	126	120	125
Professional and consulting fees	1,162	976	756	492
Repairs and maintenance	248	256	246	255
Travel and vehicle costs	485	468	162	214
Liability capping scheme	321	263	321	263
	6,622	5,866	3,792	3,267
Council and committee costs				
Honorarium	432	415	432	414
Travel and accommodation	44	58	44	58
Catering and functions	22	19	22	19
	498	492	498	491
Total administration expenses	**7,120**	**6,358**	**4,290**	**3,758**

*Total audit fees paid to Queensland Audit Office for the Society relating to the 2018-19 financial year are estimated to be $79,500 (2017-18: $77,900). There are no non-audit services included in this amount.

#PricewaterhouseCoopers (PWC) Singapore performs audit and taxation services for Lexon while PricewaterhouseCoopers Brisbane provides taxation services to the Group. Audit fees payable to PWC Singapore are estimated to be $92,732 (2018: $94,538). Taxation fees paid to PWC Brisbane are disclosed in the professional and consulting fee line above and amount to $36,563 (2018: $43,126).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

B2 EXPENSES (continued)

B2-3 EMPLOYEE EXPENSES

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Employee benefits				
Wages and salaries	12,138	11,911	9,514	9,501
Employer superannuation contributions	1,090	1,081	864	875
Movement in annual leave provision	(109)	213	(121)	214
Movement in long service leave provision	61	(50)	17	(89)
Staff training and development	40	101	42	70
Employee related expenses				
Workers' compensation premiums	42	47	37	42
Payroll taxes	637	637	484	492
Other employee benefits	41	46	36	39
Total employee expenses	**13,940**	**13,986**	**10,873**	**11,144**

Employee numbers

	Consolidated		Parent	
	2019	2018	2019	2018
Number of employees at year end	139	135	123	120
Number of full time equivalent employees at year end	122	120	107	105

Accounting policy – wages and salaries

Wages and salaries due but unpaid at reporting date are recognised in the Statement of Financial Position at current salary rates. As the Group expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Accounting policy – superannuation

Superannuation contributions are made to eligible complying superannuation funds based on the rates specified in the relevant conditions of employment. Contributions are expensed when they are paid or become payable following completion of the employee's service each pay period. Any contributions due but unpaid at reporting date are recognised in the Statement of Financial Position at current rates. As the Group expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Accounting policy – workers' compensation premiums

The Group pays premiums to WorkCover Queensland in respect of its obligations for employee compensation. Workers' compensation insurance is a consequence of employing staff, but is not counted in an employee's total remuneration package. It is not an employee benefit and is recognised separately as employee related expenses.

Key management personnel and remuneration disclosures are detailed in Note E1.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

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 and banked at 30 June as well as deposits on call with financial institutions. The cash deposit accounts are interest bearing accounts which are readily convertible to cash at the Group's option. 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:

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cash at bank	1,739	6,649	422	2,569
Cash deposit accounts	48,189	54,755	17,934	30,105
Term deposits	18,042	-	15,042	-
Total cash and cash equivalents	**67,970**	**61,404**	**33,398**	**32,674**

Reconciliation of operating result to net cash (used in)/generated from operating activities

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Operating surplus after income tax	**1,823**	**3,357**	**1,111**	**398**
Adjustments for:				
Investment income	(5,947)	(6,567)	-	-
Add/(less) non-cash items:				
Depreciation and amortisation	1,241	1,001	1,189	959
Profit on sale of property, plant and equipment	-	(7)	-	(7)
Change in assets and liabilities:				
(Increase)/decrease in assets:				
Receivables	1,056	(413)	115	294
Movement in provision for bad debts	13	(114)	-	(69)
Increase/(decrease) in liabilities:				
Payables	1,467	1,624	(1,117)	(18,800)
Accrued employee benefits	(51)	179	(106)	140
Provision for outstanding claims	7,523	(137)	-	-
Tax related balances	(35)	(571)	-	-
Net cash (used in)/generated from operating activities	**7,090**	**(1,648)**	**1,192**	**(17,085)**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C2 RECEIVABLES

Receivables are recognised at the amounts due at the time of sale or service delivery i.e. the agreed purchase/contract price. Settlement of these amounts is generally required within 30 days from invoice date. The collectability of receivables is assessed periodically with allowance being made for impairment. All known bad debts were written-off as at year end. Increases in the allowance for impairment are based on loss events.

A further allowance for impairment is calculated by applying the simplified approach to the calculation of lifetime expected credit losses. The percentage applied is calculated based on historical default rates with a forward-looking estimate adjustment which incorporates various risk factors appropriate for the class of receivable being assessed.

Other receivables generally arise from transactions outside the usual operating activities of the Group and are recognised at their assessed values. Terms are a maximum of three months, no interest is charged and no security is obtained.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Accounts receivable	345	509	117	357
Reinsurance recoverable	(7)	835	-	-
Less: provision for doubtful debts	(48)	(35)	-	-
	290	1,309	117	357
Prepaid expenses and other receivables	592	642	447	322
Total receivables	**882**	**1,951**	**564**	**679**

C3 INVESTMENT IN CONTROLLED ENTITIES

In June 2001, Lexon was incorporated in Singapore as the captive insurer of the Society. The company was capitalised with $9,000,000 via surplus funds from the Society controlled Law Claims Levy Fund. A further $10,000,000 was issued in May 2009. The $19,000,000 share capital of the company is fully owned by the Society and the company is a controlled entity of the Society. Share capital is eliminated on consolidation.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Investment in Controlled Entities	-	-	19,000	19,000

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

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 documented investment strategies. Assets in this category are presented as current assets if they either held for trading or are expected to be realised within 12 months after the reporting date. At 30 June 2019, investments are classified as non-current assets as they are kept long term and the full value will not be realised within the accounting year.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Investment in listed funds				
Opening balance	174,612	172,394	-	-
Additions	36,027	77,168	-	-
Additions via reinvestment	6,193	6,295	-	-
Disposal proceeds	(36,027)	(81,516)	-	-
Gain/(loss) on disposal	320	3,394	-	-
Fair value movements	(566)	(3,123)	-	-
Closing balance	**180,559**	**174,612**	**-**	**-**

Fair value measurements

Categorisation of fair values recognised as at 30 June 2019 are as follows:

		Consolidated		Parent Entity	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Fair Value Input	**Type**				
Level 1	None	-	-	-	-
Level 2	Investments	180,559	174,612	-	-
Level 3	None	-	-	-	-
		180,559	**174,612**	**-**	**-**

The portfolio of investments held consists of collective investment schemes. The fair value of the investments is determined by the market approach using net asset value of the collective investment schemes.

Investments are placed as follows:

Lexon Insurance Pte Ltd

- Queensland Investment Corporation

Law Claims Levy Fund

- Queensland Investment Corporation
- UBS Global Asset Management (exited May 2019)
- AMP Capital Investors (exited May 2019)
- MFS Investment Management (exited May 2019)
- Nikko Asset Management (exited May 2019)
- Ironbark Asset Management (exited May 2019)
- Schroder Investment Management (exited May 2019)
- State Street Global Advisors (exited May 2019)

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C5 PROPERTY, PLANT AND EQUIPMENT

C5-1 CONSOLIDATED

	Strata Title Building	Leasehold Improvements	Plant and Equipment	Computer Equipment	Software	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2019						
Cost or valuation						
At the beginning of the year	27,250	1,452	4,642	725	1,720	35,789
Additions	-	-	229	250	45	524
Reclassifications	-	23	-	(23)	-	-
Disposals	-	-	(2)	(151)	-	(153)
Revaluations	109	-	-	-	-	109
At the end of the year	**27,359**	**1,475**	**4,869**	**801**	**1,765**	**36,269**
Depreciation						
At the beginning of the year	-	(296)	(3,045)	(498)	(1,211)	(5,050)
Charge for the year	(681)	(43)	(274)	(111)	(132)	(1,241)
Disposals	-	-	2	151	-	153
Revaluations	(3)	-	-	-	-	(3)
At the end of the year	**(684)**	**(339)**	**(3,317)**	**(458)**	**(1,343)**	**(6,141)**
Net book value at 30 June 2019	**26,675**	**1,136**	**1,552**	**343**	**422**	**30,128**
2018						
Cost or valuation						
At the beginning of the year	17,640	1,452	4,496	854	1,721	26,163
Additions	-	-	163	12	-	175
Reclassifications	-	-	2	(1)	(1)	-
Disposals	-	-	(19)	(140)	-	(159)
Revaluations	9,610	-	-	-	-	9,610
At the end of the year	**27,250**	**1,452**	**4,642**	**725**	**1,720**	**35,789**
Depreciation						
At the beginning of the year	(441)	(256)	(2,776)	(505)	(1,081)	(5,059)
Reclassifications	-	-	-	-	-	-
Charge for the year	(441)	(40)	(288)	(102)	(130)	(1,001)
Disposals	-	-	19	109	-	128
Revaluations	882	-	-	-	-	882
At the end of the year	**-**	**(296)**	**(3,045)**	**(498)**	**(1,211)**	**(5,050)**
Net book value at 30 June 2018	**27,250**	**1,156**	**1,597**	**227**	**509**	**30,739**
Property, plant and equipment is stated as follows:						
30 June 2019						
At valuation	27,359	-	-	-	-	27,359
At cost	-	1,475	4,869	801	1,765	8,910
	27,359	**1,475**	**4,869**	**801**	**1,765**	**36,269**
Depreciation	(684)	(339)	(3,317)	(458)	(1,343)	(6,141)
	26,675	**1,136**	**1,552**	**343**	**422**	**30,128**
30 June 2018						
At valuation	27,250	-	-	-	-	27,250
At cost	-	1,452	4,642	725	1,720	8,539
	27,250	**1,452**	**4,642**	**725**	**1,720**	**35,789**
Depreciation	-	(296)	(3,045)	(498)	(1,211)	(5,050)
	27,250	**1,156**	**1,597**	**227**	**509**	**30,739**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-2 PARENT ENTITY

	Strata Title Building $'000	Leasehold Improvements $'000	Plant and Equipment $'000	Computer Equipment $'000	Software $'000	Total $'000
2019						
Cost or valuation						
At the beginning of the year	27,250	1,452	4,470	632	1,240	35,044
Additions	-	-	220	243	5	468
Reclassifications	-	23	-	(23)	-	-
Disposals	-	-	(2)	(151)	-	(153)
Revaluations	109	-	-	-	-	109
At the end of the year	**27,359**	**1,475**	**4,688**	**701**	**1,245**	**35,468**
Depreciation						
At the beginning of the year	-	(296)	(2,883)	(430)	(808)	(4,417)
Charge for the year	(681)	(43)	(264)	(94)	(107)	(1,189)
Disposals	-	-	1	151	-	152
Revaluations	(3)	-	-	-	-	(3)
At the end of the year	**(684)**	**(339)**	**(3,146)**	**(373)**	**(915)**	**(5,457)**
Net book value at 30 June 2019	**26,675**	**1,136**	**1,542**	**328**	**330**	**30,011**
2018						
Cost or valuation						
At the beginning of the year	17,640	1,452	4,319	658	1,240	25,309
Additions	-	-	151	9	-	160
Reclassifications	-	-	-	-	-	-
Disposals	-	-	-	(35)	-	(35)
Revaluations	9,610	-	-	-	-	9,610
At the end of the year	**27,250**	**1,452**	**4,470**	**632**	**1,240**	**35,044**
Depreciation						
At the beginning of the year	(441)	(255)	(2,596)	(349)	(701)	(4,342)
Reclassifications	-	-	-	-	-	-
Charge for the year	(441)	(41)	(287)	(84)	(107)	(960)
Disposals	-	-	-	3	-	3
Revaluations	882	-	-	-	-	882
At the end of the year	**-**	**(296)**	**(2,883)**	**(430)**	**(808)**	**(4,417)**
Net book value at 30 June 2018	**27,250**	**1,156**	**1,587**	**202**	**432**	**30,627**
Property, plant and equipment is stated as follows:						
30 June 2019						
At valuation	27,359	-	-	-	-	27,359
At cost	-	1,475	4,688	701	1,245	8,109
	27,359	**1,475**	**4,688**	**701**	**1,245**	**35,468**
Depreciation	(684)	(339)	(3,146)	(373)	(915)	(5,457)
	26,675	**1,136**	**1,542**	**328**	**330**	**30,011**
30 June 2018						
At valuation	27,250	-	-	-	-	27,250
At cost	-	1,452	4,470	632	1,240	7,794
	27,250	**1,452**	**4,470**	**632**	**1,240**	**35,044**
Depreciation	-	(296)	(2,883)	(430)	(808)	(4,417)
	27,250	**1,156**	**1,587**	**202**	**432**	**30,627**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-3 ACQUISITION OF ASSETS

All assets acquired are recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Plant and equipment acquired are expensed unless the initial cost exceeds $5,000 excluding GST. Buildings and leasehold improvements are recognised upon acquisition if the initial cost exceeds $10,000 excluding GST.

C5-4 DEPRECIATION AND AMORTISATION

All assets including strata title building have limited useful lives and are depreciated or amortised using the straight line method over their estimated useful lives.

Assets are depreciated or amortised from the date of acquisition. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount depreciated over the remaining or adjusted useful life of the asset. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods.

The depreciable amount of leasehold improvements is allocated progressively over the estimated useful lives of the improvements. The unexpired period of a lease includes any option period where exercise of the option is probable.

The depreciation and amortisation rates used for each class of asset are as follows:

	2019	2018
Asset Class		
Strata Title Building	2.5%	2.5%
Leasehold Improvements	2.5%	2.5%
Plant and Equipment	10% - 33%	10% - 33%
Computer Equipment	25% - 33%	25% - 33%
Software	20% - 33%	20% - 33%

C5-5 IMPAIRMENT OF PLANT AND EQUIPMENT

All plant and equipment assets are assessed for indicators of impairment on an annual basis, or when the asset is measured at fair value, for indicators of a change in fair value or service potential since the last valuation was completed.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the Statement of Comprehensive Income.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the Statement of Comprehensive Income.

C5-6 MEASUREMENT USING FAIR VALUE

The strata title building is measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*. The building is reported at its revalued amount, being the fair value at the date of valuation using the market approach, less any subsequent accumulated depreciation. The building is independently revalued at least every three years to ensure the carrying amount does not materially differ from the fair value at reporting date.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C5 PROPERTY, PLANT AND EQUIPMENT (continued)

C5-6 MEASUREMENT USING FAIR VALUE (continued)

A valuation of the strata title building was carried out as at 30 June 2019 using the Implicit Price Deflator for non-residential buildings indices to index the carrying amount of the building. Where there has been a material change in the index, revaluation increments are recognised in the asset revaluation surplus except where amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments for the same class of assets and any excess is recognised as an expense.

Categorisation of fair values recognised as at 30 June 2019 is as follows:

		Consolidated		Parent Entity	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Fair Value Input	**Type**				
Level 1	None	-	-	-	-
Level 2	Strata Title Building	26,675	27,250	26,675	27,250
Level 3	None	-	-	-	-
		26,675	**27,250**	**26,675**	**27,250**

Accounting for Changes in Fair Value

Any revaluation increment arising on the revaluation of an asset is credited to the asset revaluation surplus of the appropriate class, except to the extent it reverses a revaluation decrement for the class previously recognised as an expense. A decrease in the carrying amount on revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to that assets class.

For assets revalued using indices, accumulated depreciation is adjusted to equal the difference between the gross amount and carrying amount, after taking into account accumulated impairment losses. This is generally referred to as the 'gross method'.

For assets revalued using a market or income-based valuation approach, accumulated depreciation and accumulated impairment losses are eliminated against the gross amount of the asset prior to restating for the revaluation. This is generally referred to as the 'net method'.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C6 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.

Income in advance relates primarily to receipts for insurance, membership fees and practising certificates for the upcoming year received during the renewal period prior to year end.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Income in advance	13,691	13,329	13,691	13,329
Unearned insurance levies	22,994	21,736	-	-
Trade creditors	132	565	169	376
Legal Practitioners' Fidelity Guarantee Fund	1	(3)	1	(3)
Law Claims Levy Fund	-	-	344	1,000
Reinsurance payable	-	1,200	-	-
Other payables and accruals	4,147	2,671	1,813	2,434
Total payables	**40,965**	**39,498**	**16,018**	**17,136**

C7 ACCRUED EMPLOYEE BENEFITS

Annual leave and long service leave

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in accrued employee benefits and measured as the present value of expected future cash outflows to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments are recognised in profit or loss.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C7 ACCRUED EMPLOYEE BENEFITS (continued)

Annual leave and long service leave (continued)

The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current				
Annual leave	643	760	492	620
Long service leave	814	726	478	440
Total current accrued employee benefits	**1,457**	**1,486**	**970**	**1,060**
Non-current				
Long service leave	208	230	186	202
Total non-current accrued employee benefits	**208**	**230**	**186**	**202**
Current long service leave	814	726	478	440
Non-current long service leave	208	230	186	202
Total accrued long service leave	**1,022**	**956**	**664**	**642**

C8 PROVISIONS

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.

C8-1 INSURANCE CONTRACTS

Insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-1 INSURANCE CONTRACTS (continued)

Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group where significant insurance risk is transferred are classified as reinsurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurer's share of insurance liabilities. These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected recovery. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group assesses its reinsurance assets for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measureable impact on the amount that the Group will receive from the reinsurer.

The Group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

C8-2 INSURANCE LIABILITIES

Insurance liabilities comprise provision for outstanding claims and unearned premium reserves.

(a) Provision for outstanding claims

Central estimate

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

In addition, provision is made for claims incurred but not reported (IBNR) at balance date. The central estimates are determined by reference to a variety of estimation techniques, generally based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payments.

Central estimates are calculated gross of reinsurance with separate estimates made in relation to reinsurance recoveries based on the gross central estimate.

The net central estimate is discounted at the risk free rate of return to reflect present value.

Risk margin

Risk margins are determined by the Lexon Board and are held to mitigate the potential for uncertainty in the central estimate. The risk margin is determined by reference to industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The probability of sufficiency is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from a comparison of the risk margin with the net discounted central estimate. A 90% probability of sufficiency indicates that the outstanding claims provision is expected to be adequate 9 times out of 10. The Board aims to include risk margins such that the probability of sufficiency is in the range of 90%.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Discount rates

The outstanding claims provision is discounted for the time value of money using risk free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled.

Outstanding claims

Outstanding claims reserves comprise outstanding claims, including provisions for claims incurred but not reported and reserves for case claims.

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Opening provision for outstanding claims	72,549	72,881	-	-
Claims incurred	18,590	19,444	-	-
Claims paid during the year	(12,993)	(19,666)	-	-
Movement in claims handling provision	668	(110)	-	-
Closing provision for outstanding claims	78,814	72,549	-	-
Opening insurance contract liabilities ceded	(977)	(2,348)	-	-
Movement in reinsurance recoveries	274	374	-	-
Reinsurance receivables invoiced	(28)	997	-	-
Closing insurance contract liabilities ceded	(731)	(977)	-	-
Net outstanding claims	**78,083**	**71,572**	**-**	**-**
Law Claims Levy Fund	-	-	-	-
Lexon Insurance Pte Ltd	78,083	71,572	-	-
Net outstanding claims	**78,083**	**71,572**	**-**	**-**

Disclosed in the Statement of Financial Position as:	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Current insurance contract liabilities ceded	(93)	(325)	-	-
Non-current contract liabilities ceded	(638)	(652)	-	-
Insurance contract liabilities ceded	(731)	(977)	-	-
Current provision for outstanding claims	15,635	15,604	-	-
Non-current provision for outstanding claims	63,179	56,945	-	-
Provision for outstanding claims	78,814	72,549	-	-
Net claims outstanding	**78,083**	**71,572**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Outstanding claims (continued)

Maturity analysis	**<1 year**	**1 to 5 years**	**>5 years**	**Total**
2019	**$'000**	**$'000**	**$'000**	**$'000**
Gross central estimate	15,635	33,528	4,740	53,902
Reinsurance recoveries	(93)	(638)	(14)	(745)
Net central estimate	**15,542**	**32,890**	**4,726**	**53,158**
Discount				(1,185)
Risk margins				19,986
Claims handling				6,124
Net claims outstanding				**78,083**

	<1 year	**1 to 5 years**	**>5 years**	**Total**
2018	**$'000**	**$'000**	**$'000**	**$'000**
Gross central estimate	15,604	30,507	2,875	48,986
Reinsurance recoveries	(325)	(668)	(5)	(998)
Net central estimate	**15,279**	**29,839**	**2,870**	**47,988**
Discount				(2,006)
Risk margins				20,133
Claims handling				5,457
Net claims outstanding				**71,572**

Risk margin

The risk margin included in the net outstanding claims is 36.4% (2018: 41.2%) of the central estimate, with a probability of sufficiency of approximately 90% (2018: 90%).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Claims incurred development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid.

	For the year ended 30 June 2019			For the year ended 30 June 2018		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims incurred						
Undiscounted	17,195	(954)	16,241	19,799	(2,278)	17,521
Discount	(463)	1,358	895	(948)	845	(103)
	16,732	**404**	**17,135**	**18,851**	**(1,433)**	**17,418**
Reinsurance recoveries						
Undiscounted	(60)	341	282	(45)	443	398
Discount	2	(9)	(8)	3	(27)	(24)
	(58)	**332**	**274**	**(42)**	**416**	**374**
Net claims						
Undiscounted	17,135	(613)	16,522	19,754	(1,835)	17,919
Discount	(462)	1,349	887	(945)	818	(127)
	16,673	**736**	**17,409**	**18,809**	**(1,017)**	**17,792**
Risk margins	6,479	(6,626)	(147)	6,033	(5,311)	722
Claims handling expenses	1,800	(1,132)	668	1,814	(1,924)	(110)
Net claims incurred (Note B1-4)	**24,952**	**(7,022)**	**17,930**	**26,656**	**(8,252)**	**18,404**

The Law Claims Levy Fund has stop loss insurance that caps the fund's liability at $5,000,000 for payments made after 1 July 2001.

Lexon and the Law Claims Levy Fund have assessed the provisions for outstanding claims based upon an independent actuarial assessment as at 30 June 2019 by Mr Andrew Cohen (FIAA) and Mr Collin Wang (FIAA) of Finity Consulting Pty Ltd. The key assumptions are detailed in Note D1.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned premium and reserves

The portion of premiums that relates to unexpired risk at the reporting date is reported as the unearned premium liability. Unearned premiums are calculated based on the 1/365 method applied to the net premiums written for the financial year.

Where necessary, premium deficiency reserves calculated using actuarial methods on loss statistics are included in unearned premium reserves.

Unearned premium and premium reserves

	2019 $'000	2018 $'000
Opening unearned premiums	21,736	21,131
Movement in unearned premiums during the year	1,258	605
Closing unearned premiums	**22,994**	**21,736**
Opening unearned premium reserves	5,360	6,512
Movement in unearned premium reserves	1,178	(1,152)
Closing unearned premium reserves	**6,538**	**5,360**
To be earned within 12 months	29,532	27,096
To be earned in greater than 12 months	-	-
Total unearned premiums and reserves	**29,532**	**27,096**

Premiums have been recognised in accordance with the attachment of risk. As such, the premiums relating to the next financial year are recorded as unearned.

Net premium liabilities

	2019 $'000	2018 $'000
Unearned premium	22,994	21,736
Unearned premium reserves	6,538	5,360
Total unearned premium and reserves	29,532	27,096
Reinsurers' share of unearned premium reserves	(1,366)	(1,200)
Net unearned premiums and reserves	**28,166**	**25,896**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned premium and reserves (continued)

Expected present value of future cash flows for future claims including risk margin

	2019 $'000	2018 $'000
Undiscounted central estimate	20,692	20,142
Discount to present value	(749)	(1,439)
Discounted central estimate	**19,943**	**18,703**
Reinsurance and other costs	2,685	2,242
Claims handling costs	2,022	1,889
Risk margin	4,882	4,262
Expected present value of future cash flows for future claims including risk margin	29,532	**27,096**
Unearned premiums	**22,994**	**21,736**
Deficiency	**6,538**	**5,360**

Liability adequacy test

At reporting date, a liability adequacy test was performed to ensure the adequacy of the contract liability. In performing this test, current estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the Statement of Comprehensive Income by establishing a provision for losses arising from the liability adequacy test.

The probability of adequacy of the unearned premium reserves differs from the probability on the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of the net unearned premium liability whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried.

Accounting standards require the inclusion of a risk margin in insurance liabilities, but do not prescribe a minimum level of margin. Whilst there are established practices in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in relation to the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin of 22% (2018: 20%) to produce a 75% level of sufficiency on a net basis. This is the minimum level recognised in Australia as an industry benchmark for liability adequacy tests, in accordance with the Australian Prudential Regulatory Authority (APRA).

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a deficiency in both years.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

C8 PROVISIONS (continued)

C8-2 INSURANCE LIABILITIES (continued)

(b) Unearned premium and reserves (continued)

Maturity analysis

	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
2019				
Unearned premium reserves				
Unexpired risk reserve	-	-	-	-
Gross central estimate	3,785	13,508	5,057	22,350
Unexpired risk reserves – reinsurance	(34)	(188)	(70)	(292)
Net central estimate	**3,751**	**13,320**	**4,987**	**22,058**
Discount				(752)
Risk margins				4,882
Duty and other costs				1,322
Claims handling				2,022
Total unearned premium and reserves				**29,532**
2018				
Unearned premium reserves				
Unexpired risk reserve	-	-	-	-
Gross central estimate	3,163	14,773	3,612	21,548
Unexpired risk reserves – reinsurance	(20)	(150)	(36)	(206)
Net central estimate	**3,143**	**14,623**	**3,576**	**21,342**
Discount				(1,444)
Risk margins				4,262
Duty and other costs				1,047
Claims handling				1,889
Total unearned premium and reserves				**27,096**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Certain critical accounting judgements in applying the Group's accounting policies are related to policyholder claims.

Actuarial methodology for estimate for policyholder claims

The Group's estimates for reported and unreported losses, establishing resulting provisions and related reinsurance recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies upon the use of external advisors (lawyers, actuaries and loss adjustors) and the assumption that past experience is an appropriate basis for predicting future events.

In estimating the outstanding claims liability, projected future claim payments are discounted to the calculation date for each claim year.

The projected future claims payments for each year are based on the claim estimates and an allowance for the development of claims (Incurred But Not Enough Reported – IBNER) especially for the recent claim years in respect of which limited claims information is available and estimates are therefore the most subjective; and an allowance for losses, which were incurred but have not yet been reported (Incurred But Not Reported – IBNR).

The IBNER and IBNR estimate has been calculated using a combination of the Incurred Claims Development ('ICD') and Bornhuetter-Ferguson ('BF') methods.

Key assumptions

The following key valuation assumptions have been used to estimate future projected payments and outstanding claims liabilities:

- The ICD basis allows for the following development:

	Development Year						
Development Factor	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
Current Year	20.4%	20.4%	16.4%	7.0%	5.1%	3.5%	2.3%
Prior Year	21.3%	18.9%	13.2%	7.0%	5.1%	3.5%	2.3%

- The average cost per solicitor (used in the BF method) adopted is $3,000 (2018: $3,000).
- The Group has assumed reinsurance recoveries will be fully recoverable on a prompt basis.
- The Group has applied the zero-coupon yield for Government issued bonds to the expected future cash flows. This has resulted in a uniform discount rate of 1.02% (2018: 2.13%) per annum.
- The Group has assumed future inflation will be the same as average rate of past inflation, to the extent that it has been captured by the claims development data.
- The Group has included an allowance for claims handling expenses ('CHE') based on historical experience and projected expenses.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key assumptions (continued)

- While the Group has calculated a central estimate, a risk margin at a 90th percent probability of sufficiency has been applied and the Group has adopted reserves at this level to maintain a higher level of adequacy.
- While claim numbers are not directly used in determining estimates, they are a good lead indicator. Given the policy is based on claims made, there is an assumption of minimal development post the end of the year.

The following key valuation assumptions have been used to estimate the unexpired risk reserve:

- The average cost per solicitor adopted is $3,000 (2018: $3,000)
- The estimated growth in solicitor numbers is 3.5% (2018: 3.5%)

There have been no significant changes in the business underwritten by the Group or the way the insurance liabilities are estimated. Hence, no significant amendments have been made to the valuation methodology.

The assumptions have been determined by management and the actuarial team by taking into account claim development experience, statistical analysis and market trends.

Sensitivity analysis of key estimates

While the gross ultimate costs are sensitive to valuation assumptions, the net results are less sensitive due to the aggregate limits that apply which reduce the net exposure. The gross undiscounted unused exposure for all years totals $102.4 million (2018: $91.1 million) before risk margins; and $82.1 million (2018: $70.2 million) after allowing risk margins to the 90th probability of sufficiency. The unused net exposure per policy year ranges from $0 to $11.9 million with an average of $4.8 million; however this increases to $6.6 million in relation to years that have an outstanding balance.

The Group's results and Statement of Financial Position have been determined with a probability of sufficiency of 90%. As such, the sensitivity analysis shows the impact using this same measure before tax.

In relation to outstanding claim liabilities, the impacts on our estimated total provision due to changes in assumptions are:

- Reserve under estimation: A 10% (2018: 10%) reserve under estimation results in an additional gross undiscounted reserve of $5.4 million (2018: $4.9 million) and net discounted reserve (after risk margins) of $7.8 million (2018: $6.5 million) or 10% (2018: 9.1%) of the discounted net central estimate plus risk margins.
- Reserve over estimation: If estimated reserves on all years improved by 10% (2018: 10%) then it would result in a decrease in gross undiscounted reserve of $5.4 million (2018: $4.9 million) and the total net provision (after risk margins) would decrease by $7.8 million (2018: $7.1 million) or 10% (2018: 10%) of the discounted net central estimate plus risk margins.
- Discount rate: A half a percentage point decrease in discount rate from 1.02% (2018: 2.13%) to 0.52% (2018: 1.63%) would increase the provision by $0.9 million (2018: $0.7 million) or 1.1% (2018: 1%) of the discounted net central estimate plus risk margins.
- Claims handing provision: A one percentage point increase in the claims handling rate applied would increase the provision by $0.6 million (2018: $0.5 million) or 0.8% (2018: 0.8%) of the discounted net central estimate plus risk margins.
- Cost per solicitor under estimation: An increase in the cost per solicitor from $3,000 to $3,500 (2018: $3,000 to $3,500) increases our provision by $2.4 million (2018: $2.2 million) or 3% (2018: 3%) of the discounted net central estimate plus risk margins.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Sensitivity analysis of key estimates (continued)

Cost per solicitor over estimation: A reduction in the cost per solicitor from $3,000 to $2,500 (2018: $3,000 to $2,500) reduces our provision by $2.4 million (2018: $2.2 million) or 3% (2018: 3%) of the discounted net central estimate plus risk margins.

The Group identified a premium deficiency. Sensitivity analysis in relation to the unearned premium reserves and premium deficiency is as follows:

Solicitor number under estimation: A 10% (2018: 10%) under estimation results in an additional gross undiscounted reserve of $2.7 million (2018: $2.5 million) and net discounted reserve (after risk margins) of $2.7 million (2018: $2.5 million) or 9.5% (2018: 9.5%) of the discounted net unearned premium reserve estimate including risk margins.

Solicitor number over estimation: A 10% (2018: 10%) over estimation results in a decrease in gross undiscounted reserve of $2.7 million (2018: $2.5 million) and net discounted reserve (after risk margins) of $2.7 million (2018: $2.5 million) or 9.5% (2018: 9.5%) of the discounted net unearned premium reserve estimate including risk margins.

Cost per solicitor under estimation: An increase in the cost per solicitor from A$3,000 to $3,500 (2018: $3,000 to $3,500) increases our provision by $4.5 million (2018: $4.1 million) or 15.8% (2018: 15.9%) of the discounted net unearned premium reserve estimate including risk margins.

Cost per solicitor over estimation: A reduction in the cost per solicitor from $3,000 to $2,500 (2018: $3,000 to $2,500) reduces our provision by $4.5 million (2018: $4.1 million) or 15.8% (2018: 15.9%) of the discounted net unearned premium reserve estimate including risk margins.

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

D2-1 INSURANCE RISK

Lexon is a captive insurer and issues a single insurance contract to the parent (the Society) that transfers insurance risks of its parent to itself. This section summarises these risks and the way the Group manages them.

The risk in any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The primary insurance activity carried out by the Group assumes the risk of loss from persons that are directly subject to the risk – professional indemnity liability. Such risk may relate to a liability that may arise from an insurable event. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting strategy, reinsurance strategy and amendment to the terms and conditions of insurance contracts.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(a) Underwriting strategy

The Group is unable to provide a diversified portfolio of similar risks due to its licensing arrangement. The Group currently only underwrites the risk of the Society. Such a focus on one 'insured' group does create a wider variability of outcomes than a balanced portfolio.

(b) Reinsurance strategy

In considering the purchase of reinsurance protection, the Group's philosophy is twofold, namely:

- to reduce risk; and
- to stabilise solvency.

To achieve such objectives, the Group will consider the placing of reinsurance protection at appropriate levels with reinsurance carriers of a proven financial record. Specific reinsurance placements should reflect the appropriate balance between retention and reinsurance commensurate with the nature and complexity of the risk, all within acceptable exposure limits to the Group.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after known deductions for insolvencies and uncollectable items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors of Lexon is responsible for setting the minimum security criteria for acceptable reinsurance.

(c) Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of the Group's main product – professional indemnity liability and the ways in which it manages the associated risks.

Product features

The Group writes professional indemnity liability and under these contracts, monetary compensation awards are paid for any description of civil liability whatsoever incurred in connection with the provision of legal services by the insured Law Practice.

Professional indemnity liability is generally considered a long tail line, as it takes a relatively long period of time to finalise and settle claims for a given claim year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions.

This line is typically the largest source of uncertainty regarding claims reserves. Major contributors to this provision estimate uncertainty include the reporting lag, the number of parties involved in the underlying action, the potential amounts involved and whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written. Claims with longer reporting lag will result in greater inherent risk.

Management of risks

The key risks associated with this product are underwriting risk and claims experience risk.

Underwriting risk includes the risk of higher claims cost than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting reinsurance pricing and conditions of reinsurance cover. This may result in the Group having either too little premium for the risks it has agreed to underwrite and hence, has not enough funds to invest and pay claims, or that claims are in excess of those expected.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(c) Terms and conditions of insurance contracts (continued)

Claims development history

	2012/13 & prior $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	Total $'000
Gross								
Estimate of ultimate claims								
Costs:								
· at end of reporting year		20,254	16,447	15,869	18,184	19,879	17,363	
· one year later		14,455	15,340	15,247	16,475	18,895		
· two years later		13,259	13,196	13,390	14,290			
· three years later		15,116	15,878	14,842				
· four years later		14,551	15,941					
· five years later		14,834						
Cumulative payments to date		(10,400)	(11,244)	(8,352)	48,949	(6,435)	(1,501)	
Estimate of claims reserve		4,034	4,697	6,490	7,870	12,460	15,862	
Effect of discounting		(53)	(69)	(105)	(151)	(317)	(462)	
Best estimate of claims liability	2,448	3,981	4,628	6,385	7,719	12,143	15,400	52,704
Risk margin								19,986
Provision for claims handling								6,124
Total gross outstanding claims included in the Statement of Financial Position								**78,814**
Movement in accident year estimate before discounting and margins	348	283	62	1,453	(2,185)	(983)	17,363	16,341
Movement in excess receivable								(101)
Gross claims incurred								**16,240**
Net								
Estimate of ultimate claims								
Costs:								
· at end of reporting year		20,254	16,447	15,869	18,161	19,834	17,303	
· one year later		14,455	15,340	15,247	16,454	18,852		
· two years later		13,259	13,196	13,390	14,271			
· three years later		15,116	15,878	14,842				
· four years later		14,551	15,941					
· five years later		14,834						
Cumulative payments to date		(10,800)	(11,244)	(8,352)	(6,420)	(6,435)	(1,501)	
Estimate of claims reserve		4,034	4,697	6,490	7,851	12,417	15,802	
Effect of discounting		(53)	(69)	(105)	(151)	(317)	(462)	
Best estimate of claims liability	1,839	3,981	4,628	6,385	7,700	12,100	15,340	51,973
Risk margin								19,986
Provision for claims handling								6,124
Total net outstanding claims included in the Statement of Financial Position								**78,083**
Movement in accident year estimate before discounting and margins	685	283	62	1,453	(2,182)	(981)	17,303	16,623
Movement in excess receivable								(101)
Gross claims incurred								**16,522**

The Group monitors and reacts to changes in the general economic and commercial environment in which it operates. The Group also assesses the need to minimise its underwriting risks by retaining part of the risks underwritten for its own account and reinsuring the remainder.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-2 REINSURANCE RISK

The Group cedes insurance risk to limit exposure to underwriting losses under agreements that cover risks or group risks on yearly renewable terms. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of risk retained depends on the Group's evaluation of the risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is agreed and paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer, the Group considers their relative security. The security of the insurer is assessed from public rating information.

D2-3 CONCENTRATION OF RISK

The concentration of insurance risk before and after reinsurance is solely in Australia and from a single line of business, Professional Indemnity Insurance (for the provision of legal services).

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Recognition of financial instruments

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

Classification of financial instruments

Financial instruments are classified and measured as follows:

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

The Group does not enter into transactions for speculative purposes, nor for hedging.

Financial risk management

The Group'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.

Management and the Council regularly review the Group's performance and ensure all investments held are within the approved mandate.

(a) Currency risk

The Group is not exposed to significant foreign currency risk in relation to its functional currency as the majority of the Group's transactions, assets and liabilities are denominated in Australian Dollars.

The Group holds minor cash balances in Singapore Dollars.

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

Investments in income securities are predominantly hedged where a currency exposure exists.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Currency risk (continued)

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

(b) Price and interest rate risk

The Group is exposed to equity securities price risk arising from the investments classified as fair value through profit or loss. These securities are held with an Australian fund manager.

The Group manages its exposure to interest rate risk through the setting of investment durations by the fund managers.

The Group seeks to reduce risk by diversifying across a range of securities, maturities and counter-parties. Investment of the funds is subject to risk control limits and constraints as follows:

Duration and Tracking Error Limits (interest rate management)

The Modified Duration of the funds is constrained within a specified period either side of the Modified Duration of the Benchmark as contained in the relevant funds product disclosure statements.

Rolling year ex-post tracking error will be limited to a specified number of basis points. The ex-ante tracking error of the funds is not expected to exceed a specified number of basis points.

Sector Exposure Bands

The weighting of each sector (e.g. domestic, international – government, non-government) within the funds will be maintained in specified limits.

Credit Limits

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

Credit Risk Limits for Individual Security Investments

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

(c) Credit risk

There is no significant credit risk with respect to the collectability of premiums as the Group only underwrites risks from members. All premiums are paid up front at the commencement of the period covered under the insurance policy.

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

(i) Financial assets that are neither past due nor impaired

At balance date no financial assets are past due nor impaired other than trade receivables noted below.

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

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

(i) Financial assets that are neither past due nor impaired (continued)

Investments at fair value through profit or loss are redeemable on demand. These are placed with reputable fund managers.

No insurance recoveries are past due. All reinsurance contracts are placed in accordance with the Group's reinsurance policy which ensures appropriate credit rating of individual reinsurers and that concentration risk
is reduced to acceptable levels.

(ii) Financial assets that are past due and/or impaired

Trade debtors includes excesses which are due in relation to claims.

Trade and other receivables include excess balances of $77,500 (2018: $111,724) which are more than one month past due. There is a provision of $47,500 (2018: $35,064) on these outstanding balances.

There were no reinsurance recoveries (2018: $Nil) outstanding more than one month.

While provisions have been raised against outstanding excesses, the *Queensland Law Society Indemnity Rule 2005* gives power to the Society to take action against insured parties where any balances are outstanding.

(iii) Credit ratings

The following table shows the investment grades of balances due:

	Investment Grade (AAA to BBB)	Not rated	Total
	$'000	$'000	$'000
At 30 June 2019			
Cash and cash equivalents	67,969	1	67,970
Reinsurers' share of outstanding claims reserves	731	-	731
Trade and other receivables	-	882	882
Financial assets at fair value through profit or loss	-	180,559	180,559
Total	**68,700**	**181,442**	**250,142**
At 30 June 2018			
Cash and cash equivalents	61,403	1	61,404
Reinsurers' share of outstanding claims reserves	977	-	977
Receivables	835	1,116	1,951
Financial assets at fair value through profit or loss	-	174,612	174,612
Total	**63,215**	**175,729**	**238,944**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

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

The Group manages its expected cash flow requirements using the latest actuarial valuations detailing projected cash flows. These are monitored in conjunction with available cash and investments readily convertible to cash. A maturity analysis of unearned risk and premium reserves and outstanding claims reserves is provided in Note C8-2.

(e) Capital risk

The Group's objectives when managing capital are to ensure that the Group is adequately capitalised and assessing shortfalls between reported and required capital levels on a regular basis. Capital is calculated in accordance with Australian Prudential Regulatory Authority's guidelines.

Lexon is required under the *Singapore Insurance Act*, Cap. 142 and the relevant Regulations made thereunder to meet and maintain at all times during the course of each financial year that it carries on insurance business, minimum fund solvency and capital solvency requirements. As at balance date, Lexon has met the fund solvency requirement for its Offshore Insurance Fund and the minimum capital adequacy requirement.

Management monitors the capital position using a risk based capital model.

(f) Sensitivity Analysis

Investments at fair value through profit or loss have had the following sensitivity analyses applied, which are based on the Australian Prudential Regulatory Authority's (APRA) General Insurance Prudential Standard GPS 114.

Interest rate sensitivity

Interest rate sensitivity measures the changes on the capital base from changes in real interest rates. The sensitivity has been determined by multiplying the nominal risk-free interest rate by -0.20 (downward stress) and 0.25 (upward stress), with a maximum stress adjustment of 200 basis points in either direction.

Inflation risk sensitivity

Expected inflation sensitivity measures the changes on the capital base from changes to expensed consumer price index inflation rates. The sensitivity has been determined by adjusting the expected inflation rates by adding 125 basis points (upward movement) and subtracting 100 basis points (downward movement).

Currency sensitivity

Currency sensitivity measures the changes in the capital base due to changes in foreign currency exchange rates. The sensitivity has been determined by applying a 25% increase and 25% decrease in exchange rates. An increase in the Australian Dollar is divided by 1.25 (or multiplied by 0.8) while a decrease is divided by 0.75 (or multiplied by 1.333). Only negative results are included in the calculation.

Equity sensitivity

Equity sensitivity measures the change on the capital base of a fall in equity and other asset values. For listed equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 2.5%. For unlisted equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 3.0%.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Sensitivity Analysis (continued)

Property stress

Property sensitivity measures the change on the capital base of a fall in property and infrastructure asset values. The fall is determined by increasing the rental yield (for property assets) or earnings yield (for infrastructure assets) by 2.75%.

Credit spread stress

Credit spread sensitivity measures the change on the capital base of an increase in credit spreads and the risk of default. The sensitivity has been determined by adding a spread (based on APRA credit spread and default factors) to the current yield on the asset and multiplying the reduced value of the asset by (1 – default factor).

In relation to currency stress test, APRA requires each fund to calculate the upward and downward impact for each foreign currency. For each foreign currency, if the stress test results in a profit, the impact is adjusted to zero. Only stress tests resulting in losses are included in the calculations.

The below details the impact to investments at fair value through profit or loss before tax and before any aggregation benefits.

	2019 $'000	2018 $'000
Stress Test	**Upward impact**	
Interest rate	(266)	(352)
Inflation	(2,112)	(1,120)
Currency	(5,195)	(4,738)
	Downward impact	
Interest rate	138	285
Inflation	1,839	946
Currency	(4,559)	(4,348)
Stress Test	**Impact**	
Equity	(28,666)	(22,644)
Property	(2,193)	(1,577)
Credit spread	(4,616)	(4,608)

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D3 COMMITMENTS

D3-1 OPERATING LEASES

Payments made under operating leases (net of any incentives received from the lessor) are taken to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which the termination takes place.

D3-2 NON-CANCELLABLE OPERATING LEASES

The future minimum lease payables under non-cancellable operating leases contracted for at 30 June 2019 but not recognised as liabilities, are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Within one year	192	188	-	-
One to five years	200	350	-	-
Total non-cancellable operating leases	**392**	**538**	**-**	**-**

The Group's commitments include a lease for office premises. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Lexon has a bank guarantee for $108,031 (2018: $108,031) in favour of the lessor of 307 Queen Street, Brisbane QLD 4000 which can be drawn upon in the event of a default in accordance with the rental agreement.

D3-3 CAPITAL EXPENDITURE COMMITMENTS

There was no capital expenditure contracted for 30 June 2019 but not provided for (2018: Nil).

D4 CONTINGENT LIABILITIES AND EVENTS AFTER BALANCE DATE

There are no known contingent liabilities as at 30 June 2019. There are no events subsequent to reporting date requiring disclosure in the financial report.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

AASB 1058 *Income of Not-for-profit Entities* and AASB 15 *Revenue from Contracts with Customers*

The transition date for both AASB 15 and AASB 1058 is 1 July 2019. Consequently, these standards will first apply to the Group when preparing the financial statements for 2019-20.

Special purpose grants

Grants and funding are received from the Queensland Law Foundation (QLF) and the Law Claims Levy Fund (LCLF). LCLF grants relate to reimbursements of costs incurred by the parent entity for the execution of specific projects related to risk management in the profession. These grants are eliminated on consolidation. QLF grants relate to support for specific projects and events that directly benefit Law Society members. Under AASB 1058, these special purpose grants are recognised as liabilities (income in advance) and subsequently recognised as revenue progressively as the events to which they relate occur. This treatment is the same as current accounting policy.

Volunteer services

The Group considered the application of AASB 1058 to any of the services provided to the parent entity by the members of Queensland Law Society committees. These committees are established under various charters and Queensland Law Society rules.

Whilst the committees provide a valuable means of engagement with members and enhance the value the Queensland Law Society brings to broader society, and their value could most likely be measured reliably, these services would not be purchased if they were not donated.

These services will therefore not be recognised under the new Standard.

Revenue recognition under AASB 15

The Group has reviewed the impact of AASB 15 and determined that the timing of revenue recognition for all revenue items will be unchanged under the new standard. The implementation of the new standard will not therefore have a material impact on the Group.

The Group considered two specific revenue items in more detail in reaching the determination that the timing of revenue recognition will be unchanged following the assessment of the impact of the new standard.

Firstly, whether a practising certificate constitutes a licence and that therefore revenue for that revenue type should be recognised on the date the contract to issue the licence is formed, which would be a change from current accounting policy.

The Group concluded from its assessment that practising certificates constitute licences. As such, under the new standard, revenue would be recognised at the time the contract is formed. However, a practising certificate is a short term licence (because it is issued for a single year) and has no variable consideration as the fee is the same for all participants in the class of licence for which they are eligible.

The Group has therefore elected to adopt the exemption allowed under the standard and recognise the revenue over the full financial year or part year to which the certificate relates. This is the same outcome as under the previous applicable standard AASB 118 *Revenue*.

Secondly, whether the provision of membership of the Queensland Law Society constitutes a contract with accompanying performance obligations.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

The Group concluded that membership is a contract because all the elements of a contract are present and that therefore the revenue falls under AASB 15; and further, that the provision of membership contains performance obligations that continue throughout the period of membership. Revenue for membership fees will therefore be recognised over the full financial year or part year to which the membership relates. This is the same outcome as under the previous applicable standard AASB 118 *Revenue*.

AASB 16 *Leases*

This Standard will first apply to the Group from its financial statements for 2019-20. 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*.

Impact for lessees

Under AASB 16, the majority of operating leases (as defined by the current AASB 117) will be reported on the statement of financial position as right-of-use assets and lease liabilities.

The right-of-use asset will be initially recognised at cost, consisting of the initial amount of the associated lease liability, plus any lease payments made to the lessor at or before the effective date, less any lease incentive received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The right-of-use asset will give rise to a depreciation expense.

The lease liability will be initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Current operating lease rental payments will no longer be expensed in the statement of comprehensive income. They will be apportioned between a reduction in the recognised lease liability and the implicit finance charge (the effective rate of interest) in the lease. The finance cost will also be recognised as an expense.

AASB 16 allows a 'cumulative approach' rather than full retrospective application to recognising existing operating leases. In accordance with Queensland Treasury's policy, the Group will apply the 'cumulative approach', and will not need to restate comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of accumulated surplus (or other component of equity, as appropriate) at the date of initial application.

Outcome of review as lessee

The Group has completed its review of the impact of adoption of AASB 16 on the Statement of Financial Position and Statement of Comprehensive Income and has identified the major impacts which are outlined below.

The Group currently has four motor vehicles and a rental agreement which will be affected by the new standard. The impacts of the new standard are as follows:

	$'000
Increase in right to use assets	326
Increase in lease liabilities	(372)
Increase in income tax assets	13
Decrease in opening accumulated surplus	**(33)**

Impact for Lessors

The parent entity acts as a lessor for parts of Law Society House. Lessor accounting under AASB 16 remains largely unchanged from AASB 117. Lease receipts from operating leases are recognised as income either on a straight-line basis or other systematic basis where appropriate.

All impacts will be disclosed in the Statement of Comprehensive Income and the Statement of Financial Position from 1 July 2019, noting that in accordance with the FRR there will be no requirement to restate comparatives in the 2019-20 financial statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

AASB 17 *Insurance Contracts*

AASB 17 will come into effect for financial periods beginning on or after 1 January 2021.

AASB 17 measures insurance contracts either under the general model or a simplified version of this called the 'premium allocation approach'. The general model is defined such that at initial recognition an entity measures a group of contracts at the total of (a) the amount of fulfilment cash flows, which comprise probability-weighted estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks associated with those future cash flows and a risk adjustment for non-financial risk; and (b) the contractual service margin.

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the group at that date. The liability for incurred claims is measured as the fulfilment cash flows related to past services allocated to the group at that date.

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the premium allocation approach on the condition that, at initial recognition, the entity reasonably expects that doing so would produce a reasonable approximation of the general model, or the coverage period of each contract in the group is one year or less.

The Group has yet to determine to what extent the changes will have on the measurement of outstanding claim liabilities and how this will affect the Group's profit and classification of cash flows. Based on our preliminary assessment, given the Group only has short term insurance contracts we are not expecting a material impact to the balances reported in these financial statements.

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel (KMP) and remuneration disclosures are made in accordance with the FRR, consistent with additional guidance included in AASB 124 *Related Party Disclosures*.

The following details for KMP include those positions that had authority and responsibility for planning, directing and controlling the activities of the Society during 2018-19 and 2017-18. This is supported through the Council Charter which is available on the Society's website. Further information on these positions can be found in the body of the Annual Report.

The positions of President, Deputy President, and Vice President are supported by the elected Council members.

Position	Position Responsibility
President	Lead the Council in settling the corporate direction and goals and monitoring the performance of the Society. Each President is elected for a term of one calendar year. Supported by elected Council Members.
Deputy President	To provide direct support to President. The Deputy President succeeds to the office of President at the beginning of the second term.
Vice President	Supporting the President and Deputy President in the discharge of their duties. The Vice President holds office for a two year term.
Chief Executive Officer	To lead day to day operations of the Society and is charged with implementing and managing best practice standards and processes in risk management, compliance and governance of the Society. The Chief Executive Officer is accountable to the governing body of elected Council members.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Position	Person	Start of Term	End of Term
President	William Potts	1/01/2019	31/12/2019
President	Ken Taylor	1/01/2018	31/12/2018
President	Christine Smyth	1/01/2017	31/12/2017
Deputy President	William Potts	1/01/2018	31/12/2018
Vice President	Christopher Coyne	1/01/2019	31/12/2019
Vice President	Christopher Coyne	1/09/2017	31/12/2017
Vice President	Kara Cook	1/01/2016	31/08/2017
Chief Executive Officer	Rolf Moses	5/03/2018	Ongoing

KMP Remuneration Policy

Remuneration entitlements are set by the Council. The Society does not bear any cost of remuneration for its Councillors. Remuneration packages for key management personnel comprise the following components:

Short term employee expenses which include:

- base salary, allowances and leave entitlements paid and provided for the entire year or for that part of the year during which the employee occupied the specific position;
- performance payments recognised as an expense during the year; and
- non-monetary benefits – consisting of provision of car parking, travel reimbursement (kilometres travelled) and accommodation (including fringe benefits tax where applicable).

Long term employee benefits include long service leave entitlements accrued during the period. There were no long term employee benefits paid in the reporting period.

Post-employment benefits include amounts in respect of employer superannuation contributions.

Termination benefits include payments in lieu of notice on termination and other lump sum separation entitlements (excluding annual and long service leave entitlements) payable on termination of employment or acceptance of an offer of termination of employment.

KMP remuneration

1 July 2018 – 30 June 2019

Position	Short Term Employee Expenses				
	Monetary Expenses	Non-Monetary Benefits	Post Employment Benefits	Termination Benefits	Total Expenses
	$'000	$'000	$'000	$'000	$'000
President					
1 January 2019 - 30 June 2019	150	3	10	-	163
President					
1 July 2018 - 31 December 2018	159	7	10	-	177
Deputy President					
1 July 2018 - 31 December 2018	43	3	4	-	50
Vice President					
1 January 2019 - 30 June 2019	43	3	4	-	50
Chief Executive Officer					
1 July 2018 - 30 June 2019	330	9	21	-	359

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

E1 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

KMP remuneration (continued)

1 July 2017 – 30 June 2018

Position	Short Term Employee Expenses				
	Monetary Expenses	Non-Monetary Benefits	Post Employment Benefits	Termination Benefits	Total Expenses
	$'000	$'000	$'000	$'000	$'000
President					
1 January 2018 – 30 June 2018	161	6	15	-	182
President					
1 July 2017 – 31 December 2017	131	22	12	-	165
Deputy President					
1 January 2018 – 30 June 2018	43	3	4	-	50
Vice President					
1 September 2017 – 31 December 2017	29	-	3	-	32
Vice President					
1 July 2017 – 31 August 2017	15	-	1	-	16
Chief Executive Officer					
5 March 2018 – 30 June 2018	98	2	9	-	109
Chief Executive Officer (Acting)					
1 July 2017 – 4 March 2018	193	5	18	-	216

Performance payments

The remuneration package for the Chief Executive Officer provides for performance payments to be made conditional on the achievement of key performance indicators (KPIs) specified in the CEO's employment contract and subject to discretionary approval by the Council.

Achievement of each KPI is measured on an annual basis. The Council retains discretion as to whether performance payments are made.

$30,000 was expensed in 2018-19 (2017-18: $Nil) for bonus paid to the Chief Executive Officer.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

E2 RELATED PARTY TRANSACTIONS

The following significant transactions took place between the Consolidated Group and related parties during the financial period on commercial terms agreed between the parties concerned.

	2019 $	2018 $
Management fees and recovery expenditure paid to the parent entity by:		
Lexon Insurance Pte Ltd	465,000	184,408
Law Claims Levy Fund	51,613	41,872
Legal Practitioners' Fidelity Guarantee Fund	134,511	145,116
Legal Practitioners Admissions Board	46,120	512,301
Gross premium paid by Law Claims Levy Fund to Lexon	20,849,159	18,697,416
Grant paid by LCLF to parent entity	522,235	451,081
Professional fees paid to a firm of which a councillor of QLS is a member:		
McInnes Wilson Lawyers	1,536	7,097
Potts Lawyers	12,450	14,940
Professional fees paid to a firm of which a director of Lexon is a member:		
McInnes Wilson Lawyers	610,436	565,426
Potts Lawyers	18,649	42,664
Other non-claim professional advice provided:		
McInnes Wilson	-	7,000
Management fees paid to a firm which a director of Lexon is a member:		
AON Insurance Managers (Singapore) Pte Ltd	98,538	95,668
Consulting fees paid to Lexon Legal, a firm of which a QLS Councillor is a member:		
Consulting fee	-	166,150
Consulting fee – contribution to office costs	-	4,583
Key management personnel compensation for Lexon:		
Directors' fees*	428,891	416,400
Other officers:		
Salaried and other short term employee benefits	1,066,007	1,096,632
Employer's contribution to defined contribution plans	75,795	78,646

* Includes $55,620 of Directors' fees in relation to Mr Rolf Moses which were paid to QLS.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

E3 FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

Changes in accounting policies – AASB 9 *Financial Instruments*

The Group applied AASB 9 *Financial Instruments* for the first time in 2018-19. Comparative information for 2017-18 has not been restated and continues to be reported under AASB 139 *Financial Instruments: Recognition and Measurement*. The nature and effect of the adoption of the new accounting standard are described below.

Classification and measurement

Cash and cash equivalents

There has been no change to either the classification or valuation of cash and cash equivalents.

Receivables

Under AASB 9, debt instruments are categorised into one of three measurement bases – amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification is based on two criteria:

- whether the financial asset's contractual cash flows represent 'solely payments of principal and interest'; and
- the Group's business model for managing the assets.

The Group's debt instruments comprise receivables as disclosed in Note C2. These were classified as Receivables as at 30 June 2018 (under AASB 139) and were measured at amortised cost. These receivables are held for collection of contractual cash flows that are solely payments of principal and interest. As such, they continued to be measured at amortised cost from 1 July 2018.

Equity instruments within the scope of AASB 9 are measured at FVTPL, with the exception that an equity instrument that is not held for trading can be irrevocably designated at FVOCI. Investments in subsidiaries fall outside the scope of AASB 9. The Group's equity investments comprise shares in listed funds as disclosed in Note C3. The Group has elected to continue measuring these assets at FVTPL.

Impairment

AASB 9 requires the loss allowance to be measured using a forward-looking credit loss approach, replacing AASB 139's incurred loss approach. AASB 9 also requires a loss allowance to be recognised for all debt instruments other than those held at FVTPL.

The Group has adopted the simplified approach for measuring impairment of receivables.

On adoption of AASB 9's new impairment model, no impairment adjustments were required to opening balances of receivables.

Accounting Standards Early Adopted

No Australian Accounting Standards have been early adopted for 2018-19.

Change in Accounting Policy

Other than AASB 9 *Financial Instruments*, which is detailed above, no accounting standards that apply to the Group for the first time in 2018-19 have any material impact on the financial statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

F1 TAXATION

Income tax is recognised on consolidation.

The Queensland Law Society Incorporated (parent entity) 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 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.

Lexon is registered in Australia for income tax and has dual tax residency in Australia and Singapore. In relation to offshore insurance business, Lexon was extended for a period of 10 years from 17 February 2016 under the tax exemption scheme for captive insurers for Singapore taxation (exempt from tax). In addition Lexon has been approved for a period of 10 years from 1 April 2010 under the tax incentive scheme (if not exempt from tax the concessionary rate of 10% may be applied). Lexon has met the requirements for continued qualification for the tax incentive scheme. Lexon is still liable to be taxed in Australia at a rate of 30% on its profits.

Current income tax is recognised at the amount expected to be paid to or recovered from the tax authorities.

Deferred income tax is recognised for all temporary differences except when the deferred income tax arises from the initial recognition of an asset or liability which affects neither accounting nor taxable profit nor loss at the time of the transaction.

Current and deferred income tax is measured using the tax rates and tax laws that have been enacted or substantively enacted by balance date, and are recognised as income or expenses in the Statement of Comprehensive Income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

F1-1 INCOME TAX EXPENSE

	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Tax expense attributable to profit is made up of:				
Current income tax	-	693	-	-
Deferred income tax (Note F1-3)	(803)	(1,135)	-	-
	(803)	(442)	-	-
(Over)/under provision in preceding financial years	(1)	-	-	-
Current income tax	-	(29)	-	-
Deferred income tax (Note F1-3)	-	-	-	-
Total income tax (credit)/expense	**(804)**	**(471)**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

F1 TAXATION (continued)

F1-1 INCOME TAX EXPENSE (continued)

The tax expense on results differs from the amount that would arise using the standard tax rate due to the following:

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Operating surplus before income tax	1,019	2,886	-	-
Tax calculated at a tax rate of 30% (2018: 30%)	306	867	-	-
Effects of:				
Income not subject to tax	(992)	(1,172)	-	-
Prior year adjustments	(1)	-	-	-
Franking and other credits available	(117)	(166)	-	-
	(804)	**(471)**	**-**	**-**

F1-2 INCOME TAX RECEIVABLE

	Consolidated		Parent	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Income tax at the beginning of the financial year	(1,039)	(1,603)	-	-
Income tax refunded/(paid)	769	(100)	-	-
Current year income tax	-	693	-	-
(Over)/under provision in preceding financial years	(1)	(29)	-	-
Income tax receivable at the end of the financial year	**(271)**	**(1,039)**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the Financial Statements for the year ended 30 June 2019

F1 TAXATION (continued)

F1-3 DEFERRED INCOME TAX BALANCES

The movements in the deferred income tax accounts are as follows:

	Consolidated		Parent	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Deferred tax assets				
Balance at the beginning of the financial year	4,183	3,835	-	-
Charge to profit or loss:				
- Claims handling provision	200	(33)	-	-
- Allowance for impairment of receivables	4	(13)	-	-
- Unearned premium deficiency	353	(346)	-	-
- Unrealised investment movements	45	787	-	-
- Non-assessable distributions on investments	(67)	(62)	-	-
- Income losses	248	-	-	-
- Other timing differences	20	15	-	-
Total deferred tax assets	**4,986**	**4,183**	**-**	**-**
Deferred tax liabilities				
Balance at the beginning of the financial year	-	(787)	-	-
Charge to Statement of Comprehensive Income:	-	-	-	-
- Unrealised investment movements	-	440	-	-
- Tax-free distributions on investments	-	347	-	-
Total deferred tax liabilities	**-**	**-**	**-**	**-**
Net deferred tax asset at end of the financial year	**4,986**	**4,183**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Management Certificate for the year ended 30 June 2019

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 prescribed accounting standards, of the transactions of the Queensland Law Society Incorporated and its controlled entities for the financial year ended 30 June 2019 and of the financial position of the Group as at the end of that year.

We acknowledge responsibility under s.8 and s.15 of the *Financial and Performance Management Standard 2009* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

President
Queensland Law Society
William Potts

29/08/2019

Chief Executive Officer
Queensland Law Society
Rolf Moses

29/08/2019

Queensland Audit Office
Better public services

QUEENSLAND LAW SOCIETY INCORPORATED

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 Queensland Law Society Incorporated (the parent) and its controlled entities (the group).

In my opinion, the financial report:

a. gives a true and fair view of the parent's and group's financial position as at 30 June 2019, and their 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 2019, 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 parent and group 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 parent's and group'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 parent or group or to otherwise cease operations.

Queensland Audit Office
Better public services

QUEENSLAND LAW SOCIETY INCORPORATED

Independent Auditor's Report

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 parent's and group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group'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 parent's or group'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 parent or group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

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 2019:

a. I received all the information and explanations I required.

b. In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

30 August 2019

Melissa Fletcher
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Law Claims Levy Fund

LAW CLAIMS LEVY FUND

Statement of Comprehensive Income for the year ended 30 June 2019

	NOTES	2019 $'000	2018 $'000
Revenue			
Insurance levies	B1-1	23,019	22,026
Total levies		**23,019**	**22,026**
Other income			
Interest income		74	68
Investment income		2,719	1,425
Realised gains/(losses) on investments		320	-
Fair value gains/(losses) on investments		(416)	966
Total other income	B1-2	**2,697**	**2,459**
Total revenue		**25,716**	**24,485**
Expenses			
Administration expenses	B2-1	792	597
Audit fees	B2-2	20	20
Insurance premiums	B2-3	20,845	18,702
Stamp duty	B2-3	1,855	1,666
Total expenses		**23,512**	**20,985**
Operating result for the year		**2,204**	**3,500**
Other comprehensive income		-	-
Total comprehensive income for the year		**2,204**	**3,500**

The accompanying notes form part of these statements.

LAW CLAIMS LEVY FUND

Statement of Financial Position as at 30 June 2019

	NOTES	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	C1	25,430	23,877
Receivables	C2	367	1,009
Total current assets		**25,797**	**24,886**
Non-current assets			
Investments	C3	57,304	54,746
Total non-current assets		**57,304**	**54,746**
Total assets		**83,101**	**79,632**
Current liabilities			
Income in advance	C4	22,994	21,736
Payables	C5	53	46
Total current liabilities		**23,047**	**21,782**
Total liabilities		**23,047**	**21,782**
Net assets		**60,054**	**57,850**
Equity			
Accumulated surplus		60,054	57,850
Total equity		**60,054**	**57,850**

The accompanying notes form part of these statements.

LAW CLAIMS LEVY FUND

Statement of Changes in Equity for the year ended 30 June 2019

	2019 $'000	2018 $'000
Accumulated surplus		
Balance at 1 July	57,850	54,350
Total comprehensive income for the year	2,204	3,500
Balance at 30 June	**60,054**	**57,850**

The accompanying notes form part of these statements.

LAW CLAIMS LEVY FUND

Statement of Cash Flows for the year ended 30 June 2019

	NOTES	2019 $'000 Inflows (Outflows)	2018 $'000 Inflows (Outflows)
Cash flows from operating activities			
Receipts from the profession and reinsurers		24,933	42,781
Payments to suppliers		(23,451)	(20,978)
Interest received		71	65
Net cash generated from operating activities	C1	**1,553**	**21,868**
Cash flows from investing activities			
Proceeds from investments		36,027	-
Payments for investments		(36,027)	-
Net cash generated from investing activities		**-**	**-**
Net increase in cash and cash equivalents held		**1,553**	**21,868**
Cash and cash equivalents at the beginning of the financial year		**23,877**	**2,009**
Cash and cash equivalents at the end of the financial year	C1	**25,430**	**23,877**

The accompanying notes form part of these statements.

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION

A1-1 GENERAL INFORMATION

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

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

The Fund was wholly controlled by the Society for the whole reporting period.

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 the Queensland Treasury's minimum Financial Reporting Requirements for reporting periods beginning on or after 1 July 2018.

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 and rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

Comparatives

Comparative information reflects the audited 2017-18 financial statements and has been restated where necessary to be consistent with disclosures in the current reporting period.

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.

Investments are classified as 'non-current' as they are kept as long term and the full value will not be realised within the accounting year.

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

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

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.

Fair value is determined using one of the following three approaches:

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
- The *cost approach* reflects the amount that would be required currently to replace the service capacity of an asset. This method includes the current replacement costs methodology.
- The *income approach* converts multiple future cash flow amounts to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Where fair value is used, the fair value approach is disclosed.

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 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.

The fair value of investments is determined using the market approach and categorised into level 2 of the fair value hierarchy. There were no transfers of assets between fair value hierarchy levels during the period.

A1-5 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements are authorised for issue by the Queensland Law Society Incorporated's President and Chief Executive Officer at the date of signing the Management Certificate.

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

A2 THE FUND'S OBJECTIVES

The Fund administers insurance matters (jointly with Lexon Insurance Pte Ltd) in accordance with the *Queensland Law Society Indemnity Rule 2005*. The main source of income is the collection of Professional

Indemnity insurance levies for payment of insurance premiums to Lexon under the Master Policy in accordance with the Indemnity Rule.

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

The fund is responsible for individual claims costs up to a predefined amount which varied per insurance year for the periods 1988 to 1995. In 2001, the fund entered into an aggregate policy with Lexon Insurance Pte Ltd to cap the sum of the individual claims that remained outstanding. This aggregate amount has not been exceeded and given the fund currently has no outstanding claims it is unlikely further claims expenses will be incurred.

B1 REVENUE

B1-1 INSURANCE LEVIES

Insurance levies are recognised as revenue at the commencement of the risk period covered by the policy and accrued proportionally over the period of coverage.

Additional levies may be imposed in accordance with the indemnity rules and are accounted for separately and disclosed as income of the Fund.

All insurance levies collected via the Queensland Law Society Incorporated renewal process were transferred to the Law Claims Levy Fund. The levies collected and any surpluses of the Fund can only be used in accordance with the Indemnity Rules for insurance purposes.

B1-2 OTHER INCOME

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.

Distributions from investments are recognised in profit and loss when declared by fund managers.

Realised gains/losses represent the net gains/losses on the sale of investments and are recognised when investments are sold during the course of the year. Fair value gains/losses are recognised monthly based on fluctuations in market prices of investments. During the 2018-19 financial year, a change in investment advisors has resulted in realised gains of $320k due to the redemption and repurchase of investments.

B2 EXPENSES

B2-1 ADMINISTRATION EXPENSES

LCLF reimburses costs incurred by the Society for execution of discrete projects relating to risk management in the profession. This includes the development of resources and educational units designed to reduce the exposure of solicitors with respect to compensation and/or damages claims. These resources include legal project management, the QLS Legal Ethics Course and Solicitor Advocates Course and publications for practice support and risk management.

	2019 **$'000**	2018 **$'000**
Management fees paid to the Society	52	42
Projects relating to risk management in the profession - grant to the Society	522	451
	574	493
Investment managers' fees	173	100
Sundry expenses	45	4
Total administration expenses	**792**	**597**

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

B2 EXPENSES (continued)

B2-2 AUDIT FEES

Total audit fees paid and payable to the Queensland Audit Office to perform the audit of the Fund's financial statement for 2018-19 are $19,900 (2018: $19,500). There are no non-audit services included in this amount.

B2-3 INSURANCE PREMIUMS

Insurance premiums are paid to Lexon Insurance Pte Ltd, a wholly owned entity of Queensland Law Society, under the Master Policy in accordance with the Indemnity Rules.

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. 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:

	2019 $'000	2018 $'000
Current assets:		
Cash at bank	12	10
Short term deposits	25,418	23,867
Total cash and cash equivalents	**25,430**	**23,877**

Reconciliation of the operating result for the year to net cash generated from operating activities

	2019 $'000	2018 $'000
Operating result for the year	2,204	3,500
Adjustments for:		
Net investment income	(2,558)	(2,390)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	642	20,146
Increase/(decrease) in payables	7	7
Increase/(decrease) in income in advance	1,258	605
Net cash generated from operating activities	**1,553**	**21,868**

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

C2 RECEIVABLES

Receivables represent investment redemption, levies, GST, interest and distributions earned on funds held up to balance date which have not yet been received.

These financial assets are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. They are presented as current assets, except for those maturing later than 12 months after the reporting date which are presented as non-current assets.

The Fund assesses at each reporting date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. A further allowance for impairment is calculated by applying the simplified approach to the calculation of lifetime expected credit losses. The percentage applied is calculated based on historical default rates with a forward-looking estimate adjustment which incorporates various risk factors appropriate for the class of receivable being assessed.

	2019 $'000	2018 $'000
Interest and distributions receivable	18	7
Levies receivable from the Society	344	1,000
GST receivable	5	2
Total receivables	**367**	**1,009**

C3 INVESTMENTS

Investments are held at fair value through profit or loss. The investments are managed and their performances are evaluated on a fair value basis, in accordance with a documented investment strategy.

	2019 $'000	2018 $'000
Investment in collective investment schemes	**57,304**	**54,746**

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

C4 INCOME IN ADVANCE

Income in advance relates to insurance levies collected from the profession during the renewals cycle in May in relation to the upcoming insurance year. Current year levies in advance relate to collections for the insurance year 1 July 2019 to 30 June 2020.

	2019 $'000	2018 $'000
Levies received in advance for next financial year	**22,994**	**21,736**

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

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.

	2019 $'000	2018 $'000
Amounts payable to the Society	37	2
Investment management fees	-	19
Other payables and accruals	16	25
Total payables	**53**	**46**

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Fund 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 INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Recognition of financial instruments

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 of financial instruments

Financial instruments are classified and measured as follows:

- Cash and cash equivalents – held at amortised cost (see note C1)
- Receivables – held at amortised cost (see note C2)
- Investments – held at fair value through profit or loss (see note C3)
- Payables – held at amortised cost (see note C5)

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

Financial risk

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

Currency risk

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

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

Management regularly reviews the performance and ensures all investments held are within the approved mandate.

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

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

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

D2 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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. Investment of funds are subject to risk control limits and constraints as follows:

Duration and tracking error limits (interest rate management)

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

Sector Exposure Bands

- The weighting of each sector (e.g. domestic, international – government, non-government) within the funds will be maintained in specified limits.

Credit limits

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

Credit risk limits for individual security investments

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

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

Sensitivity analysis

Financial assets at fair value through profit or loss have had the following sensitivity analysis applied, which are based on the Australian Prudential Regulatory Authority's (APRA) General Insurance Prudential Standard GPS 114.

Interest rate sensitivity

Interest rate sensitivity measures the changes on the capital base from changes in real interest rates. The sensitivity has been determined by multiplying the nominal risk-free interest rate by -0.20 (downward stress) and 0.25 (upward stress), with a maximum stress adjustment of 200 basis points in either direction.

Inflation risk sensitivity

Expected inflation sensitivity measures the changes on the capital base from changes to expensed consumer price index inflation rates. The sensitivity has been determined by adjusting the expected inflation rates by adding 125 basis points (upward movement) and subtracting 100 basis points (downward movement).

Currency sensitivity

Currency sensitivity measures the changes in the capital base due to changes in foreign currency exchange rates. The sensitivity has been determined by applying a 25% increase and 25% decrease in exchange rates. An increase in the Australian Dollar is divided by 1.25 (or multiplied by 0.8) while a decrease is divided by 0.75 (or multiplied by 1.333).

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

D2 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis (continued)

Equity sensitivity

Equity sensitivity measures the change on the capital base of a fall in equity and other asset values. For listed equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 2.5 percent. For unlisted equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 3.0 percent.

Property stress

Property sensitivity measures the change on the capital base of a fall in property and infrastructure asset values. The fall is determined by increasing the rental yield (for property assets) or earnings yield (for infrastructure assets) by 2.75 percent.

Credit spread stress

Credit spread sensitivity measures the change on the capital base of an increase in credit spreads and the risk of default. The sensitivity has been determined by adding a spread (based on APRA credit spread and default factors) to the current yield on the asset and multiplying the reduced value of the asset by (1 – default factor).

The below details the impact to investments at fair value through profit or loss before tax and before any aggregation benefits.

	2019 $'000	2018 $'000
Stress Test		**Upward impact**
Interest rate	(132)	(76)
Inflation	(620)	150
Currency	(1,087)	(674)
		Downward impact
Interest rate	96	68
Inflation	535	(138)
Currency	(492)	(39)
Stress Test		**Impact**
Equity	(8,911)	(6,107)
Property	(766)	(80)
Credit spread	(1,644)	(1,264)

Liquidity risk

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

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

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

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

D3 CONTINGENT LIABILITIES AND EVENTS AFTER BALANCE DATE

Under the present insurance agreements the total liability of the Fund for the respective years of insurance is limited to $100,000 (1987-1994) and $500,000 (1995) per individual claim and this amount is reduced by the amount of the solicitors' deductible. Also an aggregate limit per respective year of insurance applies and this limits the total liability of the Fund. As at 30 June 2019, there are no claims against the Fund.

From 1 July 2001, the Fund has a policy with Lexon Insurance Pte Ltd (Lexon) which capped its liability at $5,000,000 for future claim payments up to and including the 1995-1996 insurance year. The Fund ceased to provide cover following the end of the 1995-1996 insurance year. Given the length of time it is unlikely that any further claims against the Fund will arise.

Based on actuarial advice in respect of the position of the Fund as at 30 June 2019 (Finity – August 2019), the insurance in place with regard to the limits per file, and the overall Fund's aggregate limit as at 30 June 2019, the Council is of the opinion that the funds on hand together with future investment income and deductibles, and in conjunction with Stop Loss cover with Lexon will ensure that all future claims will be met as and when they fall due.

There are no events subsequent to reporting date requiring disclosure in the financial report.

D4 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

AASB 1058 *Income of Not-for-profit Entities* and AASB 15 *Revenue from Contracts with Customers*

The transition date for both AASB 15 and AASB 1058 is 1 July 2019. Consequently, these standards will first apply to the Fund when preparing the financial statements for 2019-20.

The Fund has reviewed the impact of AASB 15 and AASB 1058.

AASB 1058 *Income of Not-for-profit Entities*

AASB1058 is not expected to have a material impact on the Fund.

AASB 15 *Revenue from Contracts with Customers*

Whilst the Fund is not an insurer, the Fund has revenue from insurance levies. These levies are currently recognised as revenue at the commencement of the risk period covered by the insurance policy and allocated proportionally over the period of coverage (a single financial year or less depending on the date the practitioner takes out coverage). Under AASB 15, this approach will not change.

The Fund has revenue from investment distributions, realised gains (which occur when an asset is sold) and interest. The types of revenue arise from contracts with the institutions with which the funds are invested. Current accounting policy is to recognise investment distributions when they are declared by fund managers, realised gains/(losses) when they are sold during the course of the year and interest as it accrues. Under AASB 15, the timing of recognition of these types of revenue will not change.

AASB 15 is not expected to have a material impact on the Fund.

LAW CLAIMS LEVY FUND

Notes to the Financial Statements for the year ended 30 June 2019

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

Changes in accounting policies – AASB 9 *Financial Instruments*

The Fund applied AASB 9 *Financial Instruments* for the first time in 2018-19. Comparative information for 2017-18 has not been restated and continues to be reported under AASB 139 *Financial Instruments: Recognition and Measurement*. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

Classification and measurement

Under AASB 9, debt instruments are categorised into one of three measurement bases – amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification is based on two criteria:

- whether the financial asset's contractual cash flows represent 'solely payments of principal and interest'; and
- the Fund's business model for managing the assets.

The Fund's debt instruments comprise of receivables disclosed in Note C2. They were classified as Receivables as at 30 June 2018 (under AASB 139) and were measured at amortised cost. These receivables are held for collection of contractual cash flows that are solely payments of principal and interest. As such, they continue to be measured at amortised cost beginning 1 July 2018.

Equity instruments within the scope of AASB 9 are measured at FVTPL, with the exception that an equity instrument that is not held for trading can be irrevocably designated at FVOCI. The Fund's equity investments comprise of units in collective investment schemes as disclosed in Note C3. The Fund has elected to continue measuring these assets at FVTPL.

Impairment

AASB 9 requires the loss allowance to be measured using a forward-looking credit loss approach, replacing AASB 139's incurred loss approach. AASB 9 also requires a loss allowance to be recognised for all debt instruments other than those held at FVTPL.

On adoption of AASB 9, no impairment adjustments were required to opening or closing balances of receivables.

The Fund's investments are measured at FVTPL and as such no loss allowance is required.

Liabilities

All financial liabilities continue to be measured at amortised cost. There have been no material changes in the reported value of financial liabilities.

Accounting standards early adopted

No Australian Accounting Standards have been early adopted for 2018-19.

Accounting standards applied for the first time

Other than AASB 9 *Financial Instruments*, which is detailed above, no accounting standards that apply to the Fund for the first time in 2018-19 have any material impact on the financial statements.

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 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.

LAW CLAIMS LEVY FUND

Management Certificate for the year ended 30 June 2019

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 Law Claims Levy Fund for the financial year ended 30 June 2019 and of the financial position of the Fund as at the end of that year.

We acknowledge responsibility under s.8 and s.15 of the *Financial and Performance Management Standard 2009* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

President
Queensland Law Society
William Potts

29/08/2019

Chief Executive Officer
Queensland Law Society
Rolf Moses

29/08/2019

Queensland Audit Office
Better public services

LAW CLAIMS LEVY FUND

Independent Auditor's Report

To the Council of the Queensland Law Society Incorporated.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

I have audited the accompanying financial report of the Law Claims Levy Fund.

In my opinion, the financial report:

c. gives a true and fair view of the entity's financial position as at 30 June 2019, and its financial performance and cash flows for the year then ended; and

d. 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 2019, 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 certificates given by the President and the Chief Executive Officer.

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 entity 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.

Queensland Audit Office
Better public services

LAW CLAIMS LEVY FUND

Independent Auditor's 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.
- 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.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2019:

I received all the information and explanations I required.

In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

30 August 2019

Melissa Fletcher
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Legal Practitioners' Fidelity Guarantee Fund

*All amounts are denoted in Australian currency.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of Comprehensive Income for the year ended 30 June 2019

	NOTES	2019 $'000	2018 $'000
Revenue			
Practitioner levies	B1-1	296	840
Investment income	B1-2	1,282	631
Realised gains/(losses) on investments	B1-3	19	(20)
Fair value gains/(losses) on investments	B1-3	889	901
Total revenue		**2,486**	**2,352**
Expenses			
Administration expenses	B2-1	168	142
Notified claims (net of reversals)	C6	2,064	125
Investment fees		62	56
Management fees paid to the Queensland Law Society	B2-2	134	135
Total expenses		**2,428**	**458**
Operating result for the year		**58**	**1,894**
Other comprehensive income		-	-
Total comprehensive income for the year		**58**	**1,894**

The accompanying notes form part of these statements.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of Financial Position as at 30 June 2019

	NOTES	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	C1	735	489
Receivables	C2	3	73
Investments	C3	31,151	30,727
Total current assets		**31,889**	**31,289**
Total assets		**31,889**	**31,289**
Current liabilities			
Payables	C4	13	87
Income in advance	C5	279	267
Provision for notified claims	C6	891	287
Total current liabilities		**1,183**	**641**
Total liabilities		**1,183**	**641**
Net assets		**30,706**	**30,648**
Equity			
Accumulated surplus		30,706	30,648
Total equity		**30,706**	**30,648**

The accompanying notes form part of these statements.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of Changes in Equity for the year ended 30 June 2019

	2019 $'000	2018 $'000
Accumulated surplus		
Balance at 1 July	**30,648**	**28,754**
Total comprehensive income for the year	58	1,894
Balance at 30 June	**30,706**	**30,648**

The accompanying notes form part of these statements.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Statement of Cash Flows for the year ended 30 June 2019

	NOTES	2019 $'000 Inflows (Outflows)	2018 $'000 Inflows (Outflows)
Cash flows from operating activities			
Contributions by practitioners and cost recoveries		379	1,018
Claim payments and administration expenses		(1,899)	(1,146)
Interest received		34	42
Net cash used in operating activities	**C1**	**(1,486)**	**(86)**
Cash flows from investing activities			
Proceeds from investments		1,732	33
Net cash generated from investing activities		**1,732**	**33**
Net increase/(decrease) in cash and cash equivalents held		**246**	**(53)**
Cash and cash equivalents at the beginning of the financial year		**489**	**542**
Cash and cash equivalents at the end of the financial year	**C1**	**735**	**489**

The accompanying notes form part of these statements.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

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 2018.

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 and rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

Comparatives

Comparative information reflects the audited 2017-18 financial statements and have been restated where necessary to be consistent with disclosures in the current reporting period.

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

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.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-4 BASIS OF MEASUREMENT (continued)

Fair value is determined using one of the following three approaches:

- The *market approach* uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business.
- The *cost approach* reflects the amount that would be required currently to replace the service capacity of an asset. This method includes the current replacement costs methodology.
- The *income approach* converts multiple future cash flows amounts to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Where fair value is used, the fair value approach is disclosed.

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 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.

The fair value of investments is determined using the market approach and 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 purpose of providing a source of compensation for defaults by law practices arising from acts or omissions of associates of the law practices. A major source of income for the Fund is levies from legal practitioners.

A3 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements are authorised for issue by the Queensland Law Society Incorporated's President and Chief Executive Officer at the date of signing the Management Certificate.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

B1 REVENUE

B1-1 PRACTITIONER LEVIES

Revenues are recognised at the consideration received net of any amount of GST payable to the ATO. Practitioner levies are recognised as revenue in the applicable membership year.

B1-2 INVESTMENT INCOME

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

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

	2019 $'000	2018 $'000
Distributions from investments	1,248	590
Interest income	34	41
Total investment income	**1,282**	**631**

B1-3 GAINS/(LOSSES) ON INVESTMENTS

Realised gains/(losses) represent the net gains/(losses) on the sale of investments and are recognised when investments are sold during the course of the year. Fair value gains/(losses) are recognised monthly based on fluctuations in market prices of investments.

	2019 $'000	2018 $'000
Realised gains/(losses)	19	(20)
Unrealised gains/(losses)	889	901
Total gains/(losses) on investments	**908**	**881**

B2 EXPENSES

B2-1 ADMINISTRATION EXPENSES

	2019 $'000	2018 $'000
Employee expenses	118	118
Audit fees	11	11
Legal fees	8	10
Sundry expenses	31	3
Total administration expenses	**168**	**142**

Total audit fees paid and payable to the Queensland Audit Office to perform the audit of the Fund's financial statements for 2018-19 are $10,600 (2018: $10,400). There are no non-audit services included in this amount.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

B2 EXPENSES (continued)

B2-2 MANAGEMENT FEES PAID TO THE QUEENSLAND LAW SOCIETY

	2019 $'000	2018 $'000
Management fees	134	135
Total management fees paid to the Queensland Law Society	**134**	**135**

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.

	2019 $'000	2018 $'000
Cash assets	67	171
Cash deposit account	668	318
Total cash and cash equivalents	**735**	**489**

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

	2019 $'000	2018 $'000
Operating result for the year	58	1,894
Adjustments for:		
Net investment income	(2,137)	(1,490)
(Gain)/loss on disposal of investments	(19)	20
Changes in assets and liabilities:		
(Increase)/decrease in receivables	70	680
Increase/(decrease) in payables	(74)	(94)
Increase/(decrease) in income in advance	12	(502)
increase/(decrease) in provision for notified claims	604	(594)
Net cash (used in)/generated from operating activities	**(1,486)**	**(86)**

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

C2 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 less a provision for impairment.

The Fund assesses at each reporting date whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. A further allowance for impairment is calculated by applying the simplified approach to the calculation of lifetime expected credit losses. The percentage applied is calculated based on historical default rates with a forward-looking estimate adjustment which incorporates various risk factors appropriate for the class of receivable being assessed. The table below is presented net of impairment.

	2019 $'000	2018 $'000
Interest receivable	1	-
Practitioner levies receivable from the Society	1	72
GST receivable	1	1
Total receivables	**3**	**73**

C3 INVESTMENTS

Investments are held at fair value through profit or loss. The investments are managed and their performances are evaluated on a fair value basis, in accordance with a documented investment strategy.

	2019 $'000	2018 $'000
Investment in managed funds	**31,151**	**30,727**

The portfolio of investments held consists of collective investment schemes. The fair value of the investments is determined using net asset value of the collective investment schemes. See Note B1-3 for details of gains/(losses) on investments.

Fair value measurements

Categorisation of fair values recognised as at 30 June 2019 are as follows:

		2019 $'000	2018 $'000
Fair value Input	**Type**		
Level 1	None	-	-
Level 2	Investments	31,151	30,727
Level 3	None	-	-
Total investment in managed funds		**31,151**	**30,727**

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

C4 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.

	2019 $'000	2018 $'000
Payable to the Society for annual leave entitlements	1	17
Payable to the Society for long service leave entitlements	2	48
Other payables and accruals	10	22
Total payables	**13**	**87**

C5 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 Society on behalf of the Fund. Current year levies in advance relate to collections in May and June 2019 paid to the Fund by the Society for the financial year 1 July 2019 to 30 June 2020.

	2019 $'000	2018 $'000
Fidelity Guarantee Fund levies for upcoming year	**279**	**267**

C6 PROVISION FOR NOTIFIED CLAIMS

A provision is recognised when there is a present legal, equitable or constructive obligation as a result of a past event. It is recognised at the amount expected at reporting date for which the obligation will be settled in a future period.

Key estimates

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.

	2019 $'000	2018 $'000
Opening notified claims	287	881
Add notified claims (net of reversals)	2,064	125
Less payment of notified claims	(1,460)	(719)
Total provision for notified claims	**891**	**287**

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

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 C6, 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 INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Recognition of Financial Instruments

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 of Financial Instruments

Financial instruments are classified and measured as follows:

- Cash and cash equivalents – held at amortised cost (see note C1)
- Receivables – held at amortised cost (see note C2)
- Investments – held at fair value through profit or loss (see note C3)
- Payables – held at amortised cost (see note C4)

The Fund does not enter into transaction for speculative purposes, nor for hedging. The Fund's financial instruments consist mainly of deposits with banks and investment in managed funds

Financial risk

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

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

D2 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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.

Management regularly reviews the performance and ensures all investments held are within the approved mandate.

The Fund manages interest rate and price risks through sensitivity analysis. The sensitivity analysis is performed relating to the Fund's 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 interest rate and price as follows:

	2019 $'000	2018 $'000
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%	7	5
Decrease in interest rate by 1%	(7)	(5)

	2019 $'000	2018 $'000
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%	1,558	1,536
Decrease in managed funds unit price by 5%	(1,558)	(1,536)

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 the Financial Statements for the year ended 30 June 2019

D3 CONTINGENT LIABILITIES AND EVENTS AFTER BALANCE DATE

There are no noted contingent liabilities at 30 June 2019 (30 June 2018: $336,000).

There are no events subsequent to reporting date requiring disclosure in the financial report.

D4 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 with future commencement dates are:

AASB1058 *Income of Not-for-profit Entities* and AASB15 *Revenue from Contracts with Customers*

The transition date for both AASB 15 and AASB 1058 is 1 July 2019. Consequently, these standards will first apply to the Fund when preparing the financial statements for 2019-20. The Fund has reviewed the impact of AASB 1058 and AASB 15.

AASB 1058 *Income of Not-for-profit Entities*

The Fund receives practitioner levies under a statutory requirement. There is no 'contract' between the Fund and the payer of the levy. The levies fall within the scope of AASB 1058.

The adoption of AASB1058 is not expected to have a material impact on the Fund.

AASB 15 *Revenue from Contracts with Customers*

The Fund has revenue from investment distributions, realised gains (which occur when an asset is sold) and interest. The types of revenue arise from contracts with the institutions with which the funds are invested. Current accounting policy is to recognise investment distributions when they are declared by fund managers, realised gains/(losses) when they are sold during the course of the year and interest as it accrues. Under AASB 15, the timing of recognition of these types of revenue will not change.

AASB 15 is not expected to have a material impact on the Fund.

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Notes to the Financial Statements for the year ended 30 June 2019

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

Changes in accounting policies – AASB 9 *Financial Instruments*

The Fund applied AASB 9 *Financial Instruments* for the first time in 2018-19. Comparative information for 2017-18 has not been restated and continues to be reported under AASB 139 *Financial Instruments: Recognition and Measurement*. The nature and effect of the adoption of this new accounting standard are described below.

Classification and measurement

There has been no change to either the classification or valuation of cash and cash equivalents.

Under AASB 9, debt instruments are categorised into one of three measurement bases – amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification is based on two criteria:

- whether the financial asset's contractual cash flows represent 'solely payments of principal and interest'; and
- the Fund's business model for managing the assets.

The Fund's debt instruments comprise of receivables disclosed in Note C2. They were classified as Receivables as at 30 June 2018 (under AASB 139) and were measured at amortised cost. These receivables are held for collection of contractual cash flows that are solely payments of principal and interest. As such, they continue to be measured at amortised cost.

Equity instruments within the scope of AASB 9 are measured at FVTPL, with the exception that an equity instrument that is not held for trading can be irrevocably designated at FVOCI. The Fund's equity investments comprise of shares in listed funds as disclosed in Note C3. The Fund has elected to continue measuring these assets at FVTPL.

Impairment

AASB 9 requires the loss allowance to be measured using a forward-looking credit loss approach, replacing AASB 139's incurred loss approach. AASB 9 also requires a loss allowance to be recognised for all debt instruments other than those held at FVTPL.

On adoption of AASB 9, no impairment adjustments were required to opening or closing balances of receivables.

The Fund's investments are measured at FVTPL and as such no loss allowance is required.

Liabilities

All financial liabilities continue to be measured at amortised cost. There have been no material changes in the reported value of financial liabilities.

Accounting standards early adopted

No Australian Accounting Standards have been early adopted for 2018-19.

Accounting standards applied for the first time

Other than AASB 9 *Financial Instruments*, which is detailed above, no accounting standards that apply to the Fund for the first time in 2018-19 have any material impact on the financial statements.

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 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 2019

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 2019 and of the financial position of the Fund as at the end of that year.

We acknowledge responsibility under s.8 and s.15 of the *Financial and Performance Management Standard 2009* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

President
Queensland Law Society
William Potts

29/08/2019

Chief Executive Officer
Queensland Law Society
Rolf Moses

29/08/2019

Queensland Audit Office
Better public services

LEGAL PRACTITIONERS' FIDELITY GUARANTEE FUND

Independent Auditor's Report

To the Council of the Queensland Law Society Incorporated

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

I have audited the accompanying financial report of the 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 2019, 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 2019, 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 certificates given by the President and the Chief Executive Officer.

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 entity 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.

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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.
- 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.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2019:

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

30 August 2019

Melissa Fletcher
as delegate of the Auditor-General

Queensland Audit Office
Brisbane