

Legal Services Commission

Financial report
for the year ended
30 June 2019



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To the Chair Legal Services Commission

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 25 of the *Legal Services Commission Act 1977*, I have audited the financial report of the Legal Services Commission for the year ended 30 June 2019.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Legal Services Commission as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairperson, Director and Manager, Finance.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and 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 Legal Services Commission. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants* have been met.

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

Responsibilities of the Director and members of the Commission for the financial report

The Director is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Director is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The members of the Commission are responsible for overseeing the entity's financial reporting process.

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 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 the 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 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 the purpose of expressing an opinion on the effectiveness of the Legal Services Commission's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director

- 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
- 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.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Director and the members of the Commission about, 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 the audit.



Andrew Richardson

Auditor-General

30 September 2019

Certification of the Financial Statements

We certify that the:

- Financial statements of the Legal Services Commission of South Australia:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's Instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the Commission at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by the Legal Services Commission of South Australia over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.



Chinh Dinh-Pham
Manager, Finance
27 September 2019



Gabrielle Canny
Director
27 September 2019



Michael Abbott
Chairperson
27 September 2019

Legal Services Commission of South Australia

Statement of Comprehensive Income

for the year ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------|------|----------------|----------------|
| Expenses | | | |
| Employee benefits expenses | 2.3 | 21 395 | 19 521 |
| Private Practitioner services | | 17 555 | 18 015 |
| Supplies and services | 3.1 | 6 821 | 6 883 |
| Depreciation and amortisation | 3.2 | 600 | 547 |
| Other expenses | 3.3 | 81 | 164 |
| Total expenses | | 46 452 | 45 130 |
| Income | | | |
| Commonwealth grants | 4.2 | 16 867 | 16 999 |
| Legal Practitioners Act 1981 revenues | 4.3 | 3 243 | 2 920 |
| Statutory charges | | 1 314 | 927 |
| Interest | 4.4 | 512 | 368 |
| Costs recovered and contributions | 4.5 | 294 | 273 |
| Other income | 4.6 | 4 665 | 1 828 |
| Total income | | 26 895 | 23 315 |
| Net cost of providing services | | 19 557 | 21 815 |
| Revenues from SA Government | | | |
| Revenues from SA Government | 4.1 | 24 941 | 44 799 |
| Net result | | 5 384 | 22 984 |
| Total comprehensive result | | 5 384 | 22 984 |

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

Legal Services Commission of South Australia

Statement of Financial Position

as at 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 6.1 | 37 051 | 35 158 |
| Receivables | 6.2 | 4 361 | 2 066 |
| Total current assets | | 41 412 | 37 224 |
| Non-current assets | | | |
| Property, plant and equipment | 5.1 | 3 533 | 3 729 |
| Intangible assets | 5.2 | 414 | 524 |
| Statutory charge debtors | 6.3 | 8 361 | 7 511 |
| Total non-current assets | | 12 308 | 11 764 |
| Total assets | | 53 720 | 48 988 |
| Current liabilities | | | |
| Legal payables | | 745 | 807 |
| Payables | 7.1 | 615 | 442 |
| Employee benefits | 2.4 | 1 583 | 1 833 |
| Other liabilities | 7.2 | 233 | 233 |
| Total current liabilities | | 3 176 | 3 315 |
| Non-current liabilities | | | |
| Payables | 7.1 | 202 | 271 |
| Employee benefits | 2.4 | 3 879 | 3 980 |
| Other liabilities | 7.2 | 1 867 | 2 100 |
| Total non-current liabilities | | 5 948 | 6 351 |
| Total liabilities | | 9 124 | 9 666 |
| Net Assets | | 44 596 | 39 322 |
| Equity | | | |
| Retained earnings | | 44 547 | 39 273 |
| Asset Revaluation Surplus | | 49 | 49 |
| Total Equity | | 44 596 | 39 322 |

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

Legal Services Commission of South Australia

Statement of Changes in Equity

for the year ended 30 June 2019

| | Note | Asset revaluation surplus \$'000 | Retained earnings \$'000 | Total Equity \$'000 |
|---|------|---|--------------------------------|------------------------|
| Balance at 1 July 2017 | | 49 | 16 289 | 16 338 |
| Total comprehensive result for 2017-18 | | - | 22 984 | 22 984 |
| Balance at 30 June 2018 | | 49 | 39 273 | 39 322 |
| Adjustments on initial adoption of AASB 9 | 9.2 | - | (110) | (110) |
| Adjusted balance at 1 July 2018 | | 49 | 39 163 | 39 212 |
| Total comprehensive result for 2018-19 | | - | 5 384 | 5 384 |
| Balance at 30 June 2019 | | 49 | 44 547 | 44 596 |

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

Legal Services Commission of South Australia

Statement of Cash Flows

for the year ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|-----------------|-----------------|
| <u>Cash flows from operating activities</u> | | | |
| <i>Cash outflows</i> | | | |
| Employee benefits payments | | (21 841) | (19 141) |
| Payments for supplies and services | | (7 527) | (6 975) |
| Private Practitioner services | | (19 416) | (20 453) |
| Cash used in operations | | (48 784) | (46 569) |
| <i>Cash inflows</i> | | | |
| Receipts from Commonwealth | | 16 867 | 16 744 |
| Legal Practitioners Act 1981 receipts | | 3 329 | 2 884 |
| Costs recovered and contributions | | 309 | 296 |
| Statutory charge receipts | | 396 | 590 |
| Interest received | | 511 | 364 |
| GST recovered from the ATO | | 2 181 | 2 365 |
| Other receipts | | 2 467 | 1 640 |
| Cash generated from operations | | 26 060 | 24 883 |
| Cash flows from SA Government | | | |
| Receipts from SA Government | | 24 911 | 44 675 |
| Cash generated from SA Government | | 24 911 | 44 675 |
| Net cash provided by operating activities | | 2 187 | 22 989 |
| <u>Cash flows from investing activities</u> | | | |
| <i>Cash outflows</i> | | | |
| Purchase of property, plant & equipment and intangibles | | (294) | (164) |
| Net cash used in investing activities | | (294) | (164) |
| Net increase in cash and cash equivalents | | 1 893 | 22 825 |
| Cash and cash equivalents at the beginning of the period | | 35 158 | 12 333 |
| Cash and cash equivalents at the end of the period | 6.1 | 37 051 | 35 158 |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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1. About the Legal Services Commission of South Australia

The Legal Services Commission of South Australia (the Commission) is a body corporate and not-for-profit. It is capable of acquiring or incurring any rights or liabilities that may properly attach to a body corporate. It has the powers, functions and duties prescribed or imposed upon it by or under the *Legal Services Commission Act 1977* (the Act).

The Commission was established under the Act to provide or arrange for the provision of legal assistance in accordance with the Act. Under section 6(3) of the Act, the Commission is not an instrumentality of the Crown and is independent of the Government.

The financial statements and accompanying notes include all activities of the Commission.

The Commission does not control any other entity and has no interests in unconsolidated structured entities. The financial statements and accompanying notes include all the controlled activities of the Commission.

The Commission is endorsed by the Australian Taxation Office (ATO) as an income tax exempt charity and as a Public Benevolent Institution.

1.1. Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards with reduced disclosure requirements.

For the 2018-19 financial statements, the Commission adopted *AASB 9 Financial Instruments* and is required to comply with new *Treasurer's Instructions (Accounting Policy Statements)* issued on 22 March 2019. Further information is provided in note 9.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

1.2. Objectives

The objective of the Commission is to provide or arrange for the provision of legal assistance in accordance with the Act. The functions and principals of the Commission are set out in section 10 and 11 of the Act.

2. Board, committees and employees

2.1. Key management personnel

Key management personnel of the Commission in 2018-19 include the Director, five Commissioners, the Chief Operating Officer and the Legal Practice Manager. In 2017-18, it included the Director, four Commissioners, the Chief Operating Officer and the Legal Practice Manager.

Total compensation for key management personnel was \$0.9m in 2018-19 and \$0.8m in 2017-18.

Transactions with key management personnel and other related parties

There were no transactions with key management personnel and other related parties during the financial year.

2.2. Commission members

The members of the Commission are appointed by the Governor in accordance with the provisions of the Act and include sole practitioners.

Members of the Commission during the 2019 financial year were:

| | |
|------------------------------------|------------|
| Michael Abbott | Chair |
| Gabrielle Canny * | Ex Officio |
| Alison Lloyd-Wright * | |
| Alan Herald (retired April 2019) | |
| Catherine Nelson | |
| Debra Contala (appointed May 2019) | |

*In accordance with the Premier and Cabinet Circular No. 016, government employees did not receive any remuneration for board/committee duties during the financial year.

Remuneration of Commissioners

| The number of members whose remuneration received or receivable falls within the following bands: | 2019 No. | 2018 No. |
|---|-------------|-------------|
| \$0 - \$19 999 | 5 | 4 |
| \$20 000 - \$39 999 | 1 | 1 |
| Total number of members | 6 | 5 |

The total remuneration received or receivable by members was \$47 000 (2017-18 - \$50 000). Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

In the ordinary course of business the Commission enters into transactions with legal firms, some of which are associated with members of the Commission. Payments made to these firms are in accordance with the Commission's scale of fees and are payments that apply to practitioners generally. Accordingly, unless otherwise disclosed, transactions between members are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

2.3. Employee benefits expenses

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Salaries and wages | 14 652 | 15 502 |
| Targeted voluntary separation packages | 2 303 | - |
| Long service leave | 788 | 496 |
| Annual leave | 1 374 | 1 208 |
| Skills and experience retention leave | 94 | 89 |
| Employment on-costs - superannuation | 1 623 | 1 679 |
| Employment on-costs - other | 429 | 414 |
| Commission members' fees | 43 | 43 |
| Workers compensation | 89 | 90 |
| Total employee benefits expenses | 21 395 | 19 521 |

Employment on-costs - superannuation

The superannuation employment on-cost charge represents the Commission's contributions to superannuation plans in respect of current services of current employees.

Executive remuneration

| | 2019 No. | 2018 No. |
|---|-------------|-------------|
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| \$149 000 to \$151 000 * | N/A | 1 |
| \$151 001 to \$171 000 | 5 | 6 |
| \$171 001 to \$191 000 | 1 | 1 |
| \$191 001 to \$211 000 | 2 | 2 |
| \$211 001 to \$231 000 | 2 | 1 |
| \$231 001 to \$251 000 | 1 | 1 |
| \$251 001 to \$271 000 | 1 | - |
| \$271 001 to \$291 000 | 1 | - |
| \$291 001 to \$311 000 | 2 | 2 |
| Total | 15 | 14 |

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2017-18.

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$3.23m (2017-18 - \$2.77m)

Targeted voluntary separation packages

The number of employees who received a TVSP during the reporting period was 33 (2017-18 - Nil).

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Amount paid to separated employees: | | |
| Targeted Voluntary Separation Packages | 2 303 | - |
| Leave paid to separated employees | 748 | - |
| Recovery from the Department of Treasury and Finance | (1 051) | - |
| Net cost to the Commission | 2 000 | - |

2.4. Employee benefits liability

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| <u>Current</u> | | |
| Accrued salaries and wages | 341 | 376 |
| Annual leave | 916 | 1 111 |
| Long service leave | 244 | 234 |
| Skills and experience retention leave | 82 | 112 |
| Total current employee benefits | 1 583 | 1 833 |
| <u>Non-current</u> | | |
| Long service leave | 3 879 | 3 980 |
| Total non-current employee benefits | 3 879 | 3 980 |
| Total employee benefits | 5 462 | 5 813 |

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave (SERL) and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the SERL liability in full is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided as note 11.1.

3. Expenses

Employee benefits expenses are disclosed in note 2.3.

3.1. Supplies and services

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Operating lease payments | 2 428 | 2 426 |
| Information technology expenses | 1 803 | 1 726 |
| Accommodation | 610 | 642 |
| Telecommunications | 359 | 292 |
| Periodicals and subscriptions | 278 | 274 |
| Legal fees and disbursements | 166 | 111 |
| Interpreter fees | 146 | 159 |
| Travel | 134 | 173 |
| Practising certificates and membership | 118 | 111 |
| Office supplies and consumables | 115 | 164 |
| Audit fees - Auditor-General's Department | 77 | 76 |
| Relationship Australia Service fees | 86 | 108 |
| Storage fees | 73 | 69 |
| Courses and training | 35 | 76 |
| Media and advertising | 34 | 41 |
| Audit fees - other | 25 | - |
| Consultancy fees | 22 | 90 |
| Northern Domestic Violence Service fees | - | 70 |
| Other | 312 | 275 |
| Total supplies and services | 6 821 | 6 883 |

Operating leases payments

Operating lease payments (less any lease incentives) are recognised on a straight-line basis over the lease term.

Consultants

The number of consultancies and the dollar amount paid/payable (included in supplies and services expense) to consultants that fell within the following bands:

| | No. | 2019 \$'000 | No. | 2018 \$'000 |
|-------------------|----------|----------------|----------|----------------|
| Below \$10 000 | 1 | 3 | 3 | 12 |
| \$10 000 or above | 1 | 19 | 3 | 78 |
| Total | 2 | 22 | 6 | 90 |

3.2. Depreciation and amortisation

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Plant and equipment | 266 | 273 |
| Leasehold improvements | 224 | 223 |
| Intangible assets | 110 | 51 |
| Total depreciation and amortisation | 600 | 547 |

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

Useful life

Depreciation/amortisation is calculated on a straight-line basis over the estimated useful life of the following classes of assets as follows:

| Class of asset | Useful life (years) |
|------------------------|----------------------------|
| Leasehold improvements | 5-15 |
| Plant and equipment | |
| Computers | 3-5 |
| Office equipment | 5-13 |
| Furniture and fittings | 5-13 |
| Intangibles | 3-8 |

The library collections are anticipated to have very long and indeterminate useful lives. No amount for depreciation has been recognised as their service potential has not, in any material sense, been consumed during the reporting period.

The amortisation period and the amortisation method for intangible assets is reviewed on an annual basis.

3.3. Other expenses

| | 2019 | 2018 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Statutory charge bad debts and impairment loss on receivables | 76 | 162 |
| Bad debts | 5 | 2 |
| Total other expenses | 81 | 164 |

4. Income

4.1. Revenues from SA Government

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Revenues from SA Government | | |
| Grant funding | 22 940 | 44 545 |
| Recovery from the Department of Treasury and Finance | 1 051 | - |
| Expensive Cases - reimbursement | 950 | 254 |
| Total revenues from SA Government | 24 941 | 44 799 |

In 2019 the State Government contributed funding of \$22.9m (2017-18 - \$44.5m). This amount is deposited with SAFA.

Due to a change in the timing of the payment, 2017-18 included funding for both 2017-18 and 2018-19. The funding in 2018-19 was for services offered in 2019-20.

The Commission is separately funded by the State Government for matters that exceed the Commission's prescribed funding cap. The matters are funded pursuant to the *Criminal Law (Legal Representation) Act 2001*. The Commission enters into an approved Case Management Agreement with the State Government for these matters.

The State Government provided \$0.95m (2017-18 - \$0.3m) for approved expensive cases that exceeded the Commission funding cap of \$50 000 in the case of one party being aided and \$100 000 in the case of more than one party, irrespective of the number being aided. These matters are separately funded by the State Government.

4.2. Commonwealth grants

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| National Partnership Agreement - funding | 16 191 | 16 034 |
| Family Advocacy and Support Service - funding | 610 | 610 |
| Expensive Cases - reimbursement | 66 | 355 |
| Total Commonwealth grants | 16 867 | 16 999 |

A National Partnership Agreement on Legal Assistance Services between the Commonwealth of Australia and States and Territories is effective from 1 July 2015 to 30 June 2020. Amounts from the Commonwealth are received via the Attorney-General's Department.

Contributions are recognised as an asset and income when the Commission obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met.

4.3. *Legal Practitioners Act 1981* revenues

In accordance with the *Legal Practitioners Act 1981*, the Commission is entitled to revenue from funds administered by the Law Society of South Australia.

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Statutory Interest account | 1 265 | 1 138 |
| Interest on Legal Practitioners Trust Account | 1 978 | 1 782 |
| Total <i>Legal Practitioners Act 1981</i> Revenue | 3 243 | 2 920 |

4.4. Interest

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------------|----------------|----------------|
| Short-term deposits with SAFA | 511 | 367 |
| Cash and cash equivalents | 1 | 1 |
| Total interest revenues | 512 | 368 |

4.5. Costs recovered and contributions

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Costs recovered | 62 | 46 |
| Contributions * | 232 | 227 |
| Total costs recovered and contributions | 294 | 273 |

* In addition, contributions of \$0.9m (2017-18 - \$0.8m) in relation to referred cases were paid or are payable directly to private practitioners by clients.

4.6. Other income

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Online Dispute Resolution System * | 2 649 | 240 |
| Women's Domestic Violence * | 450 | 450 |
| Disability and Carer Support Program * | 368 | 165 |
| Community Legal Service Eligibility, Triage and Referral Services | 320 | 320 |
| Drug Court Funding | 151 | 147 |
| Family Violence and Cross-Examination of Parties Scheme * | 129 | - |
| Return to Work SA Funding | 124 | 111 |
| Law Foundation Grant | 32 | - |
| Other | 442 | 395 |
| Total other income | 4 665 | 1 828 |

* Included in other income is funding for special projects paid directly to the Commission by the Commonwealth Government.

5. Non-financial assets

5.1. Property, plant and equipment

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| <u>Leasehold improvements</u> | | |
| Leasehold improvements | 4 199 | 4 136 |
| Accumulated depreciation | (2 125) | (1 901) |
| Total leasehold improvements | 2 074 | 2 235 |
| <u>Plant and equipment</u> | | |
| Plant and equipment | 5 247 | 5 015 |
| Accumulated depreciation | (4 049) | (3 782) |
| Total plant and equipment | 1 198 | 1 233 |
| <u>Library</u> | | |
| Library | 261 | 261 |
| Total library | 261 | 261 |
| Total property, plant and equipment | 3 533 | 3 729 |

Property, plant and equipment with a value equal to or in excess of \$1 000 is capitalised, otherwise it is expensed.

Property, plant and equipment is recorded at fair value. Detail about the Commission's approach to fair value is set out in note 11.2.

Impairment

Property, plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity and are subject to regular revaluation.

Reconciliation 2018-19

| | Leasehold improvements \$'000 | Plant and equipment \$'000 | Library \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|-------------------|-----------------|
| Carrying amount at 1 July 2018 | 2 235 | 1 233 | 261 | 3 729 |
| Acquisitions | 63 | 231 | - | 294 |
| Depreciation | (224) | (266) | - | (490) |
| Carrying amount at 30 June 2019 | 2 074 | 1 198 | 261 | 3 533 |

5.2. Intangible assets

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------------|----------------|----------------|
| <u>Computer software</u> | | |
| Computer software | 2 031 | 1 557 |
| Work in progress | - | 473 |
| Accumulated amortisation | (1 617) | (1 506) |
| Total computer software | 414 | 524 |

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition and recognition criteria and when the amount of expenditure is greater than or equal to \$1 000.

Reconciliation 2018-19

| | WIP | Computer software | Total |
|---|------------|-------------------|------------|
| | \$'000 | \$'000 | \$'000 |
| Carrying amount at 1 July 2018 | 473 | 51 | 524 |
| Transfers from WIP to Computer Software | (473) | 473 | - |
| Amortisation | - | (110) | (110) |
| Carrying amount at 30 June 2019 | - | 414 | 414 |

6. Financial assets

6.1. Cash and cash equivalents

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Short-term deposits with SAFA | 36 688 | 34 960 |
| Cash on hand | 363 | 198 |
| Total cash and cash equivalents | 37 051 | 35 158 |

6.2. Receivables

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Current | | |
| Prepayments | 351 | 376 |
| Accrued revenues | 78 | 47 |
| <i>Legal Practitioners Act 1981</i> debtors | 731 | 817 |
| Client debtors | 142 | 129 |
| Impairment loss on receivables | (30) | (30) |
| Other debtors | 2 787 | 479 |
| GST input tax recoverable | 302 | 248 |
| Total current receivables | 4 361 | 2 066 |

The total receivables figure does not include 'non-current receivables' as the Legal Services Commission of South Australia does not have any receivables that meet the definition of non-current. Any 'non-current receivables' would be disclosed in this note.

Receivables arise in the normal course of selling goods and services to other government agencies and to the public. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

The net amount of GST payable to the ATO is included as part of receivables.

Impairment of receivables

The Commission assessed the impact of initial adoption of AASB 9 and concluded that it had no impact on receivables.

6.3. Statutory charge debtors

Statutory charge debtors are raised as a result of the Commission registering charges over property owned by some recipients of legal aid to secure legal costs owed on cases undertaken and are reported at amounts due. Debts are recovered when the property is refinanced or sold.

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------------------|----------------|----------------|
| Statutory charge debtors | 8 561 | 7 641 |
| Impairment loss on receivables | (200) | (130) |
| Total statutory charge debtors | 8 361 | 7 511 |

Impairment of statutory charge debtors

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Balance at 30 June 2018 under AASB 139 | 130 | - |
| Adjustments on initial adoption of AASB 9 | 110 | - |
| Carrying amount at the beginning of the period | 240 | 130 |

Refer to note 9.2 for details regarding the methodology for determining impairment.

7. Liabilities

Employee benefits liabilities are disclosed in note 2.4.

7.1. Payables

| | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|----------------|----------------|
| Current | | |
| Trade payables | 342 | 144 |
| Accrued expenses | 77 | 76 |
| Employment on-costs | 196 | 222 |
| Total current payables | 615 | 442 |
| Non-current | | |
| Employment on-costs | 202 | 271 |
| Total non-current payables | 202 | 271 |
| Total payables | 817 | 713 |

Payables and accruals are raised for all amounts owing but unpaid. Trade payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

The net amount of GST recoverable from the ATO is included as part of payables.

Employment on-costs

Employment on-costs include payroll tax, Return to Work levies and superannuation contributions and are settled when the respective employee benefits that they relate to is discharged.

The Commission makes contributions to several State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the South Australian Superannuation Board.

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave is unchanged at 41% and the average factor for the calculation of employer superannuation cost on-costs has changed from the 2018 rate (9.9%) to 9.8%. These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is immaterial.

Paid parent leave scheme

Paid Parental Leave Scheme payable represents amounts which the Commission has received from the Commonwealth Government to forward onto eligible employees via the Commission's standard payroll processes. That is, the Commission is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

7.2. Other liabilities

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| <u>Current</u> | | |
| Lease incentive | 233 | 233 |
| Total current other liabilities | 233 | 233 |
| <u>Non-current</u> | | |
| Lease incentive | 1 867 | 2 100 |
| Total non-current other liabilities | 1 867 | 2 100 |
| Total other liabilities | 2 100 | 2 333 |

Lease incentives in the form of leasehold improvements are capitalised as an asset and depreciated over the remaining term of the lease or estimated useful life of the improvement, whichever is shorter.

8. Other disclosures

8.1. Equity

The asset revaluation surplus is used to record increments and decrements in the fair value of property and plant and equipment to the extent that they offset one another. Relevant amounts are transferred to retained earnings when an asset is derecognised.

8.2. Cash flow

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

9. Changes in accounting policy

9.1. Treasurer's Instructions (Accounting Policy Statements)

On 22 March 2019 the *Treasurer's Instructions (Accounting Policy Statements) 2019* were issued by the Treasurer under the *Public Finance and Audit Act 1987*. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope
- General Purpose Financial Statements Framework
- Asset Accounting Framework
- Financial Asset and Liability Framework
- Income Framework
- Definitions.

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- removal of the additional requirement to report transactions with the SA Government.
- increasing the bands from \$10 000 to \$20 000 for employee and board member reporting.

These changes, however, do not impact on the amounts reported in the financial statements.

The Accounting Policy Statements also set out requirements in relation to Accounting Standards and Statements not yet effective.

9.2. AASB 9 Financial instruments

AASB 9 Financial Instruments replaces the provisions of *AASB 139 Financial Instruments: Recognition and Measurement* that relate to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of AASB 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements.

As part of the adoption of AASB 9, the Commission adopted consequential amendments to other accounting standards and the Accounting Policy Statements arising from the issue of AASB 9 as follows:

- *AASB 101 Presentation of Financial Statements* requires the impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. This information was presented as part of other expenses, as it was deemed not to be material.
- *AASB 7 Financial Instruments: Disclosures* requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year because the comparatives have not been restated.

In accordance with transitional provisions and the Accounting Policy Statements, *AASB 9 Financial Instruments* was adopted without restating comparative information for classification and measurement requirements. All adjustments relating to classification and measurement are recognised in retained earnings at 1 July 2018.

The adoption of AASB 9 has not had a significant effect on the recognition, measurement or classification of financial liabilities.

The total impact on the Commission's retained earnings as at 1 July 2018 is as follows:

| | |
|--|---------------|
| | 2018 |
| | \$000 |
| Closing retained earnings 30 June 2018 – AASB 139 | 39 273 |
| Adjustment to retained earnings from adoption of AASB 9 | (110) |
| Opening retained earnings 1 July 2018 – AASB 9 | 39 163 |

On 1 July 2018, the Commission has assessed and reclassified its financial assets into the appropriate AASB 9 categories depending on the business model and contractual cash flow characteristics applying to the asset. AASB 9 eliminates the AASB 139 categories of held to maturity, loans and receivables and available for sale.

Reclassification of financial instruments on adoption of AASB 9

On the date of initial application, Commission's financial instruments were as follows, with any reclassifications noted.

| | Measurement category | | Carrying amount | | |
|--|--------------------------|-------------------|---------------------------------------|-------------------------------|------------------------------------|
| | AASB 139 | AASB 9 | AASB 139 at 30 June 2018 \$'000 | Re - measurement \$'000 | AASB 9 at 1 July 2018 \$'000 |
| <u>Current financial assets</u> | | | | | |
| Receivables | Loans and receivables | Amortised cost | 99 | - | 99 |
| <u>Non-current financial assets</u> | | | | | |
| Statutory charge debtors | Loans and receivables | Amortised cost | 7 511 | (110) | 7 401 |

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' model. The receivables and statutory charge debtors of the Commission are subject to AASB 9's new expected credit loss model.

This model generally results in earlier recognition of credit losses than the previous one.

Receivables and statutory charge debtors

New impairment requirements result in a provision being applied to all receivables rather than only on those receivables that are credit impaired. The Commission has adopted the simplified approach under *AASB 9 Financial Instruments* and measured lifetime expected credit losses on all receivables using a provision matrix approach as a practical expedient to measure the impairment provision. This resulted in an increase of the loss allowance on 1 July 2018 of \$110 000 for statutory charge debtors, external to Government.

There are no additional impairment provisions for State, Territory, or Commonwealth Government receivables due to the Government's high quality credit risk.

Receivables and statutory charge debtors that were classified as loans and receivables under AASB 139 are now classified at amortised cost as they meet the appropriate criteria under AASB 9.

10. Outlook

10.1. Unrecognised contractual commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Legal expense commitments

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|----------------|----------------|
| Within one year | 7 509 | 7 259 |
| Total expenditure commitments | 7 509 | 7 259 |

As at 30 June 2019, the Commission has disclosed a commitment on all outstanding amounts raised since 1 January 2019 (i.e. previous six months).

When a private practitioner is allocated a case, they are issued with a commitment certificate indicating the amount the private practitioner is able to claim in relation to the case. Once the private practitioner has provided the service, they sign and submit the commitment certificate, so they can be paid. 'Legal Expense Commitments' relate to commitment certificates that have been issued by the Commission but not yet returned.

Expenditure commitments

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Within one year | 67 | 65 |
| Later than one year but not longer than five years | 159 | 226 |
| Total expenditure commitments | 226 | 291 |

The Commission's expenditure commitments are for agreements for the Electronic Document and Record Management System (EDRMS).

Operating lease commitments

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| <u>Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:</u> | | |
| Within one year | 2 673 | 2 699 |
| Later than one year but not longer than five years | 10 862 | 10 450 |
| Later than five years | 11 588 | 14 556 |
| Total operating lease commitments | 25 123 | 27 705 |
| Representing: | | |
| Cancellable operating leases | 719 | - |
| Non-cancellable operating leases | 24 404 | 27 705 |
| Total operating lease commitments | 25 123 | 27 705 |

There are no purchase options available to the Commission.

The Commission's operating leases are for office accommodation.

Office accommodation is leased from the Department of Planning, Transport and Infrastructure and from non-government landlords. The leases are non-cancellable with terms ranging up to three years with some leases having the right of renewal. Rent is payable in advance.

10.2. Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

The Commission is not aware of any contingent assets or contingent liabilities.

10.3. Impact of standards and statements not yet effective

The Commission has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective.

Treasurer's Instructions (Accounting Policy Statements) 2019 issued by the Treasurer on 22 March 2019 are effective for 2018-19 reporting period and are addressed below in relation to Standards not yet effective and in note 9.1. There are no Accounting Policy Statements that are not yet effective.

The material impacts on the Commission are outlined below.

AASB 15 – Revenue from Contracts with Customers and AASB 1058 – Income of Not for Profit Entities

The Commission will adopt *AASB 15 – Revenue from Contracts with Customers* and *AASB 1058 – Income of Not for Profit Entities* from 1 July 2019.

Objective

AASB 15 introduces a 5-step approach to revenue recognition. The objective of AASB 15 is that recognition of revenue depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. It provides extensive guidance as to how to apply this revenue recognition approach to a range of scenarios. *AASB 15 – Revenue from Contracts* replaces *AASB 111 – Construction Contracts* and *AASB 118 – Revenue*.

AASB 1058 introduces consistent requirements for the accounting of non-reciprocal transactions by not-for-profit entities, in conjunction with AASB 15. These requirements closely reflect the economic reality of not-for-profit entity transactions that are not contracts with customers. AASB 1058 replaces parts of *AASB 1004 – Contributions*.

Impact on 2019-20 financial statements

As at the reporting date, adopting AASB 15 and AASB 1058 is not expected to have an impact on the timing of recognition of revenue by the Commission.

Related accounting policies

The *Treasurer's Instructions (Accounting Policy Statements) 2019* sets out key requirements that the Commission must adopt for the transition to *AASB 15 – Revenue from Contracts with Customers* and *AASB 1058 – Income of Not for Profit Entities*. These requirements include that the Commission will:

- apply AASB 15 and AASB 1058 retrospectively. The cumulative effect of initially applying the Standards will be recognised at 1 July 2019. Comparatives will not be restated.
- not apply the AASB 15 and the AASB 1058 completed contracts practical expedient.
- apply the AASB 15 practical expedient for all contract modifications that occur before the date of initial application.

The *Treasurer's Instructions (Accounting Policy Statements) 2019* also sets out requirements for on-going application. These requirements include that Commission will:

- apply, where permitted, the short-term licences recognition exemption.
- adopt \$15 000 as the threshold to determine whether a licence is a licence for which the transaction price is of low value and will apply the low value licence recognition exemption for all low value licences.
- not recognise volunteer services when the services would not have been purchased if they had not been donated.

AASB 16 – Leases

The Commission will adopt *AASB 16 – Leases* from 1 July 2019.

Objective

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. The outcome will be that lease information disclosed will give users of financial statements a basis to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. *AASB 16 Leases* replaces *AASB 117 Leases* and *Interpretation 4 Determining whether an Arrangement contains a Lease*, *Interpretation 115 Operating Leases – Incentives and Interpretation*, and *Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Impact on 2019-20 financial statements

The Commission has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the *Treasurer's Instructions (Accounting Policy Statements)*.

AASB 16 requires lessees to recognise assets and liabilities for all leases, not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive.

AASB 16 is expected to have a material impact on the Statement of Financial Position. The Commission has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16's transition approach to those leases identified as leases by the Commission prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability were SAFA's forecast interest rates for principal and interest loans to SA Government agencies for 1 July 2019 as at 4 February 2019.

The estimated impact is set out below.

| | as at 1 July 2019 \$'000 |
|---|--------------------------------|
| Assets | |
| Right-of-use assets | 20 417 |
| Liabilities | |
| Lease liabilities | (22 517) |
| Other liabilities (lease incentive liabilities) | 2 100 |
| Net impact on equity | - |

Leases with the Commission are for office accommodation and motor vehicles.

AASB 16 will also impact on the Statement of Comprehensive Income. The operating lease expense previously included in supplies and services will mostly be replaced with:

- a depreciation expense that represents the use of the right-of-use asset; and
- borrowing costs that represent the cost associated with financing the right-of-use asset.

The estimated impact on 2019-20 Statement of Comprehensive Income is set out below.

| | 2020 |
|---|---------------|
| | \$'000 |
| Depreciation and amortisation | 2 405 |
| Supplies and services | (2 537) |
| Borrowing costs | 409 |
| Net impact on net cost of providing services | 277 |

The amounts disclosed are current estimates only. The Commission is continuing to refine its calculations of lease assets and liabilities for 2019-20 financial reporting purposes and expects that these figures will change. This includes accounting for non-lease components and clarifying lease terms and treatment of contractual rent increases.

Related accounting policies

The *Treasurer's Instructions (Accounting Policy Statements) 2019* sets out key requirements that the Commission must adopt for the transition from *AASB 117 Leases* to *AASB 16 Leases*. These requirements include that the Commission will:

- apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated.
- only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations.
- not apply to transition operating leases for which the lease term ends before 30 June 2020.

The *Treasurer's Instructions (Accounting Policy Statements) 2019* also sets out requirements for on-going application. These requirements include that Commission will:

- not apply AASB 16 to leases of intangible assets.
- adopt \$15 000 as the threshold to determine whether an underlying asset is a low value asset and must apply the low value asset recognition exemption to all low value assets.
- apply the short-term leases recognition exemption for all classes of underlying asset.
- separate non-lease components from lease components.
- adopt the revaluation model, where permitted.
- where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance.
- on initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable the Commission to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

10.4. Events after the reporting period

At balance date and as at the date of financial statement certification, there were no known events after the reporting period.

11. Measurement and risk

11.1. Long service leave liability - measurement

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2018 (2.5%) to 2019 (1.25%).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of \$364 000 and employee benefits expense of \$364 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions - including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

The Commission's estimate of expected future payments for the current portion of long service leave is based on an average over a three year period on long service leave taken.

11.2. Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Initial recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Revaluation

Property, plant and equipment are subsequently measured at fair value after allowing for accumulated depreciation.

Non-current tangible assets are valued at fair value and revaluation of non-current assets or a group of assets is only performed when the fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years.

Revaluation is undertaken on a regular cycle. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

Revaluation of the library collection was performed by Valcorp Australia Pty Ltd as at 30 June 2014. The independent valuer arrived at fair value based on the written down replacement cost of the collections.

All items of plant and equipment had a fair value at the time of acquisition less than \$1.5 million and had an estimated useful life of between three to five years. Plant and equipment has not been revalued in accordance with Accounting Policy Statements 116.D. The carrying value of these items are deemed to approximate fair value.

11.3. Financial instruments

Financial risk management

Risk management is managed by the Commission's corporate services section. Commission risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

The Commission's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held.

Liquidity risk

The Commission is funded principally from grants by the State and Commonwealth Governments.

The Commission's exposure to liquidity risk is insignificant based on past experience and current assessment of risk. There have been no changes to risk exposure since the last reporting period.

Impairment of financial assets

Loss allowances for statutory charge debtors are measured at an amount equal to lifetime expected credit loss using the simplified approach in AASB 9. The Commission uses an allowance matrix to measure the expected credit loss of receivables from non-government debtors which comprise a large number of small balances.

To measure the expected credit losses, statutory charge debtors are grouped based on the days past due. When estimating expected credit loss, the Commission considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Commission's historical experience and informed credit assessment, including forward-looking information.

The expected credit loss of government debtors is considered to be nil based on the external credit ratings and nature of the counterparties.

Loss rates are calculated based on the probability of a statutory charge debtor progressing through stages to write off based on the common risk characteristics of the transaction and debtor.

Loss rates are based on actual history of credit loss. These rates have been adjusted to reflect differences between previous economic conditions, current conditions and the Commission's view of the forecast economic conditions over the expected life of the statutory charge debtors.

Impairment losses are presented as net impairment losses within net result, subsequent recoveries of amounts previously written off are credited against the same line item.

Statutory charge debtors are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to enter into a payment plan with the Commission and a failure to make contractual payments.

The Commission considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and therefore the expected credit loss is nil.

In the comparative period, the impairment of statutory charge debtors was assessed based on the incurred loss model. The allowance was recognised when there was objective evidence that a debtor was impaired. The allowance for impairment is recognised in other expenses for specific debtors and debtors assessed on a collective basis for which such evidence existed.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset/financial liability note.

Classification applicable until 30 June 2018 under AASB 139 Financial Instruments: Recognition and Measurement

The carrying amounts are detailed below of each of the following categories of financial assets and liabilities:

- Loans and receivables
- Financial liabilities measured at cost.

Classification applicable from 1 July 2018 under AASB 9 Financial Instruments

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) - debt instrument, FVOCI - equity instrument or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest only on the principal amount outstanding.

The Commission measures all financial instruments at amortised cost.

| Category of financial assets and financial liabilities | Note | 2019 Carrying amount (\$'000) |
|--|------|--|
| Financial assets | | |
| Cash and equivalent | | |
| Cash and cash equivalent | 6.1 | 37 051 |
| Financial assets at amortised cost | | |
| Receivables | 6.2 | 2 865 |
| Total financial assets | | 39 916 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| Payables | 7.1 | 342 |
| Total financial liabilities | | 342 |

| Category of financial assets and financial liabilities | Note | 2018 Carrying amount (\$'000) |
|--|------|--|
| Financial assets | | |
| Cash and equivalent | | |
| Cash and cash equivalent | 6.1 | 35 158 |
| Loans and receivables | | |
| Receivables | 6.2 | 525 |
| Total financial assets | | 35 683 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| Payables | 7.1 | 144 |
| Total financial liabilities | | 144 |

Receivables and payables

Under AASB 139, the receivable and payable amounts disclosed excluded amounts relating to statutory receivables and payables. In the current year, these have been included as required under AASB 9.

In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. The standard defines contract as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 6.2.