

Retail Shop Leases Fund

Financial report
for the year ended
30 June 2018



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Small Business Commissioner

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 72(2) of the *Retail and Commercial Leases Act 1995*, I have audited the financial report of the Retail Shop Leases Fund for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Retail Shop Leases Fund as at 30 June 2018, 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 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Small Business Commissioner and the Manager, Business Services.

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 Retail Shop Leases Fund. 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 Small Business Commissioner for the financial report

The Small Business Commissioner 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 the 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 is free from material misstatement, whether due to fraud or error.

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
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Small Business Commissioner
- 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 Small Business Commissioner 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.

A handwritten signature in black ink, appearing to read "Richardson", with a long horizontal flourish extending to the right.

Andrew Richardson

Auditor-General

27 September 2018

Retail Shop Leases Fund
Certification of the Financial Statements
for the year ended 30 June 2018

We certify that the attached general purpose financial statements for the Retail Shop Leases Fund:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987* and relevant Australian Accounting Standards
- are in accordance with the accounts and records of the Retail Shop Leases Fund
- present a true and fair view of the financial position of the Retail Shop Leases Fund as at 30 June 2018 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by the Retail Shop Leases Fund for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



John Chapman
Small Business Commissioner
27th September 2018



Enza Pullino
Manager, Business Services
27th September 2018

Retail Shop Leases Fund

Financial Statements

For the year ended 30 June 2018

Retail Shop Leases Fund
Statement of Comprehensive Income
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<u>Expenses</u>			
Administration	3	239	195
Total expenses		239	195
<u>Income</u>			
Interest and investment	4	418	482
Total income		418	482
Net result		179	287
<u>Other comprehensive income</u>			
Items that will be reclassified subsequently to net result when specific conditions are met:			
Gain / (loss) on revaluation of investments recognised directly in equity	5	59	(70)
Total other comprehensive income		59	(70)
Total comprehensive result		238	217

The net result and total comprehensive result are attributable to the SA Government as owner.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Retail Shop Leases Fund
Statement of Financial Position
as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<u>Current assets</u>			
Cash and cash equivalents	6	339	566
Receivables	7	306	323
Investments	8	992	1 028
Total current assets		1 637	1 917
<u>Non-current assets</u>			
Investments	8	8 702	7 813
Total non-current assets		8 702	7 813
Total assets		10 339	9 730
<u>Current liabilities</u>			
Security bonds lodged	9	967	931
Payables	10	5	15
Total current liabilities		972	946
<u>Non-current liabilities</u>			
Security bonds lodged	9	6 931	6 586
Total non-current liabilities		6 931	6 586
Total liabilities		7 903	7 532
Net assets		2 436	2 198
<u>Equity</u>			
Investments market value reserve		161	102
Retained earnings		2 275	2 096
Total equity		2 436	2 198

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments	11
Contingent assets and liabilities	12

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Retail Shop Leases Fund
Statement of Changes in Equity
for the year ended 30 June 2018

	Note	Investments market value reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 30 June 2016		172	1 809	1 981
<u>Net result for 2016-17</u>		-	287	287
Loss taken to equity		(70)	-	(70)
Total comprehensive result for 2016-17		(70)	287	217
Balance at 30 June 2017		102	2 096	2 198
<u>Net result for 2017-18</u>		-	179	179
Gain taken to equity	5	59	-	59
Total comprehensive result for 2017-18		59	179	238
Balance at 30 June 2018		161	2 275	2 436

All changes in equity are attributable to the SA Government as owner.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Retail Shop Leases Fund
Statement of Cash Flows
for the year ended 30 June 2018

		2018	2017
		(Outflows)	(Outflows)
		Inflows	Inflows
	Note	\$'000	\$'000
<u>Cash flows from operating activities</u>			
Cash outflows			
Administration		(239)	(195)
Bond refunds		(896)	(861)
Cash used in operations		<u>(1 135)</u>	<u>(1 056)</u>
Cash inflows			
Interest received		435	336
Bonds lodged		1 267	1 327
Cash generated from operations		<u>1 702</u>	<u>1 663</u>
Net cash provided by operating activities		<u>567</u>	<u>607</u>
<u>Cash flows from investing activities</u>			
Cash outflows			
Purchase of investments		(794)	(329)
Cash used in investing activities		<u>(794)</u>	<u>(329)</u>
Net cash used in investing activities		<u>(794)</u>	<u>(329)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(227)</u>	<u>278</u>
Cash and cash equivalents at the beginning of the period		566	288
Cash and cash equivalents at the end of the period	6	<u>339</u>	<u>566</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Retail Shop Leases Fund

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1 Basis of financial statements

1.1 Reporting entity

The Retail Shop Leases Fund (the Fund) is established under the *Retail and Commercial Leases Act 1995* (the Act). The financial statements are required by section 72(1) of the Act and include income, expenses, assets and liabilities which the Small Business Commissioner manages on behalf of the SA Government.

The Fund does not control any other entity and has no interest in unconsolidated structured entities.

1.2 Statement of compliance

These financial statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (Reduced Disclosure Requirements) and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

The Fund has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Fund is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Fund for the period ending 30 June 2018.

1.3 Basis of preparation

The financial statements have been prepared based on a 12 month operating cycle 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 on a different basis.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Significant accounting policies are set out in the notes.

1.4 Taxation

The Fund is not subject to Income Tax. The Fund is liable for Goods and Services Tax (GST). Income, expenses and assets are recognised net of the amount of GST. GST collections and payments are carried out by the Department of State Development (DSD) on behalf of the Fund.

2 Objectives and activities

The Fund consists of amounts received by the Small Business Commissioner (the Commissioner) by way of security bonds, and other amounts paid into the Fund under the *Retail and Commercial Leases Act 1995* (the Act). Income derived from investment of the Fund may be applied towards the costs of administering the Act, enforcing the Act and education of lessors and lessees about their statutory and contractual rights and obligations as approved by the responsible Minister.

The Fund's main source of income is interest derived and distributions from the investment of Fund assets in accordance with subsection 100(4) of the Act. Fund assets mainly represent the investment of security bonds received in accordance with subsection 19(5)(b) of the Act.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

3 Administration expenses

	2018	2017
	\$'000	\$'000
Administration costs	239	195
Total administration expenses	239	195

Reimbursements to the Small Business Commissioner, for part of the cost of administering Part 10 of the *Retail and Commercial Leases Act 1995*. The increase in fees is related to additional once off costs in 2018 to support the implementation of the new Retail Bonds Management System.

4 Interest and investment income

	2018	2017
	\$'000	\$'000
Interest and investment income	418	482
Total interest and investment income	418	482

Interest and investment income includes interest earned and distributions received on the Fund's bank accounts and investments held with the Public Trustee.

5 Other comprehensive income

	2018	2017
	\$'000	\$'000
Gain / (loss) on revaluation from investments	59	(70)
Total other comprehensive income	59	(70)

Gain / loss from investments relate to changes in the market value of investments held with the Public Trustee. These investments are classified as available for sale financial assets.

6 Cash and cash equivalents

	2018	2017
	\$'000	\$'000
Cash at bank	339	566
Total cash and cash equivalents	339	566

Cash is measured at nominal amounts.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

7 Receivables

	2018	2017
	\$'000	\$'000
<u>Current</u>		
Accrued interest	306	323
Total receivables	306	323

8 Investments

	2018	2017
	\$'000	\$'000
<u>Current</u>		
Investments	992	1 028
Total current investments	992	1 028
<u>Non-current</u>		
Investments	8 702	7 813
Total non-current investments	8 702	7 813
Total investments	9 694	8 841

Investments represent funds deposited with the Public Trustee. These investments have been designated as available for sale financial assets as they are held with the intention to dispose of the asset if required to ensure sufficient cash flow to meet bond repayments. Investments are made by way of unit holdings in a selection of common funds managed by the Public Trustee. The proportion of unit holdings is dependent upon the investment strategy adopted.

As at 30 June 2018 the Fund held investments in common funds in the following proportions:

Capital Stable	64.05%
Balanced	22.97%
Cash Common Fund	9.92%

Investments are measured at fair value in accordance with unit prices at balance date as advised by the applicable fund manager.

Investments are classified as either current or non-current. Those to be rolled over within 12 months are classified as current investments.

Due to the classification of investments as available for sale, gains or losses are recognised in the investments market value reserve.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

9 Security bonds lodged

	2018	2017
	\$'000	\$'000
<u>Current</u>		
Bonds lodged	967	931
Total current security bonds lodged	<u>967</u>	<u>931</u>
<u>Non-current</u>		
Bonds lodged	6 931	6 586
Total non-current security bonds lodged	<u>6 931</u>	<u>6 586</u>
Total security bonds lodged	<u><u>7 898</u></u>	<u><u>7 517</u></u>

Security bonds are received to ensure a lessee on cessation of a retail shop lease complies with all statutory compliance under the Act. Bonds lodged are recognised as a liability on receipt.

10 Payables

	2018	2017
	\$'000	\$'000
<u>Current</u>		
Unclaimed bonds	5	15
Total current payables	<u>5</u>	<u>15</u>

Unclaimed security bonds consist of bonds that have been refunded to the bond holder and remain unrepresented for greater than three months.

11 Unrecognised contractual commitments

The Fund has no commitments contracted for at the reporting date but not recognised as liabilities.

12 Contingent assets and liabilities

The Commissioner is not aware of any contingent assets or liabilities at reporting date.

13 Related party transactions

Related parties of the Fund include all key management personnel and their close family members; all Cabinet Ministers and their close family members; and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

13 Related party transactions (continued)

Significant transactions with government related entities

The Fund has reimbursed \$239 000 to the Small Business Commissioner during 2018 (2017: \$195 000), for part of the cost of administering Part 10 of the *Retail and Commercial Leases Act 1995*. Quantitative information about the transaction and balance are disclosed at note 3.

Key management personnel

Refer to the Small Business Commissioner's financial statements for details of the remuneration of the Commissioner.

14 Financial risk management / financial instruments

Financial risk management

Risk management is managed by the office and the Fund risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and the Treasurer, relevant Treasurer's Instructions and the *Australian Risk Management Principles and Guidelines*.

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

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.

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

- Held-to-maturity investments;
- Receivables; and
- Financial liabilities measured at cost.

Investments represent funds held by the Public Trustee. The Public Trustee has invested in collective investment vehicles for the purpose of gaining exposure to Australian and international equities, fixed interest and property. The managers of such vehicles have invested in a variety of financial instruments, including derivatives, which expose the Fund to investment risks, including market, credit, interest and currency risk. These investments are valued by the Public Trustee at reporting date and recognised at fair value. All significant inputs required to measure fair value of investments are observable, and accordingly included in level 2.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

14 Financial risk management / financial instruments (continued)

Category of financial asset and financial liability	Note	2018 Carrying amount / fair value (\$'000)	2017 Carrying amount / fair value (\$'000)
Financial assets			
Cash	6	339	566
Receivables ⁽¹⁾	7	306	323
Investments	8	9 694	8 841
Total financial assets		10 339	9 730
Financial liabilities			
Security bonds lodged	9	7 898	7 517
Payables ⁽¹⁾	10	5	15
Total financial liabilities		7 903	7 532

⁽¹⁾ The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law.

⁽²⁾ Payables are recorded at carrying amounts which approximates fair value. Security bonds are held on behalf of third parties. The carrying amount of all security bonds is considered to be a reasonable estimate of net fair value.

Retail Shop Leases Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2018

15 Impact of standards and statement not yet implemented

AASB 9 Financial Instruments

The revision to AASB 9 *Financial Instruments* applies to reporting periods beginning on or after 1 Jan 2018. AASB 9 *Financial Instruments* provides the principles for the classification, measurement, recognition, de-recognition and disclosure associated with financial assets and liabilities. The key changes include simplified requirements for classification and measurement of financial assets and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognised impairment only when incurred.

The funds invested with the Public Trustee are currently classified as Available for Sale at Fair Value through Other Comprehensive Income (FVOCI). On adoption of AASB 9 *Financial Instruments*, these investments will continue to be measured at fair value, however the gain / loss on revaluation of investment will be reported through the Net Result. The effect on the 2017-18 net result if the statements had been operational for 2017-18 would have been an increase in net result of \$59 000.

16 Events after the reporting period

There are no known events after balance date that affect the Fund.