

Financial overview

The Commission had a very successful financial year in 2005–2006, managing to constrain expenditure while at the same time increasing the number of client services.

The Commission's financial result was a surplus of \$26.777 million, compared to a budgeted surplus of \$4.564 million. Two significant items contributed to the size of the surplus, being:

- A positive movement of \$12.098 million on the Commission's defined benefit superannuation schemes, which has the effect of reducing employee related expenses; and
- A capital allocation from NSW Treasury of \$1.931 million. This results in a higher surplus in the year of acquisition, as the related depreciation expense is spread over a number of years.

Excluding these two items, the surplus before capital items and individually significant items was \$12.748 million or 7.6% of 2005–2006 income before capital.

The 2005–2006 financial year is the first time the Commission has reported under Australian Equivalents to International Financial Reporting Standards (AEIFRS). Comparative information for the 2004–2005 financial year has also been provided. The major impact of the introduction of AEIFRS is the effect on the Commission's defined benefit superannuation schemes, which will become far more volatile than was previously the case. The size of the positive movement in the 2005–2006 financial year is an example of this volatility, which is predominantly caused by changes in the long term government bond rate which is used as the discount rate when calculating the superannuation position. Refer to notes 16 and 27 in the Audited Financial Statements for additional information.

Income

The main sources of funding for the Commission are the State and Commonwealth Governments, the Public Purpose Fund and contributions from legally aided persons.

In 2005–2006, the State Government provided \$83.567 million (\$79.536 million in 2004–2005), the Trustees of the Public Purpose Fund \$24.457 million (\$19.594 million in 2004–2005) and the

Commonwealth Government \$52.493 million (\$50.447 million in 2004–2005).

Included in the funding from the Commonwealth Government was \$2.059 million (\$1.074 in 2004–2005) in discretionary funding for expensive criminal cases costing above \$40,000 under Commonwealth legislation.

Of the funds provided by the State Government, \$1.931 million (\$3.753 million in 2004–2005) was from the State Asset Acquisition program to fund improvements to the Commission's office accommodation, the replacement of previously leased computers and the project to replace the Commission's core business system. No Commonwealth funding was used for this purpose in 2005–2006.

Expenses

The Commission's major expenses are employee related expenses associated with the inhouse legal practice of \$44.363 million (\$56.840 million in 2004–2005) and payments made to private legal practitioners for services to clients for work undertaken on behalf of the Commission of \$63.650 million (\$60.047 million in 2004–2005).

Assets

Assets have increased significantly during 2005–2006 due to an unexpected positive movement of \$12.098 million in the Commission's superannuation position, the State Government's decision to purchase computer equipment that was previously leased and lower than expected expenditure by the Commission which has increased cash balances.

Liabilities

Liabilities have decreased due to the unexpected positive movement in the Commission's superannuation position which was partially offset by increases in employee entitlements, predominantly as a result of salary increases affecting the expected cost of satisfying those entitlements.

Introduction to financials

In the 2005–2006 financial year the Legal Aid Commission has changed the format of its financial statements from that of previous financial years.

Following amendments to the *Public Sector Employment and Management Act 2002*, and a review of the Commission's financial reporting requirements, it has been determined that the Legal Aid Commission economic entity consists of three separate reporting entities; being the Legal Aid Commission (a statutory corporation), the Office of the Legal Aid Commission (a government department), and the Legal Aid Commission Temporary Staff Division (a division of the Government Service). The Office of the Legal Aid Commission provides personnel services to the Legal Aid Commission. The Legal Aid Commission Temporary Staff Division was not utilised during 2005–2006.

In accordance with the requirements of Australian Equivalents to International Financial Reporting Standards, the Commission has prepared a financial report for the **Legal Aid Commission economic entity** (shown in the Consolidated columns in the Legal Aid Commission Financial Statements), for the **Legal Aid Commission statutory corporation** (shown in the Parent columns in the Legal Aid Commission Financial Statements) and for the **Office of the Legal Aid Commission**.

Subsequently, in the following financial report you will find:

- The Consolidated Financial Statements of the Legal Aid Commission economic entity and the Financial Statements of the Legal Aid Commission statutory corporation on pages 61–90;
- The Financial Statements of the Office of the Legal Aid Commission on pages 91–105; and
- Other financial information required by applicable legislation and government policy on pages 106–110.

Comparative financial information for the 2004–2005 financial year has been provided in all Financial Statements.

LEGAL AID COMMISSION OF NEW SOUTH WALES FINANCIAL REPORT

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LEGAL AID COMMISSION OF NEW SOUTH WALES

Independent Audit Report for the Year Ended 30 June 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Legal Aid Commission of New South Wales

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Legal Aid Commission of New South Wales (the Commission):

- presents fairly the Commission's and the consolidated entity's (defined below) financial position as at 30 June 2006 and their performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act), and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope***The Financial Report and Board's Responsibility***

The financial report comprises the operating statements, statements of changes in equity, balance sheets, cash flow statements, the program statement - expenses and revenue, the summary of compliance with financial directives and accompanying notes to the financial statements for the Commission and consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises the Commission and the entities it controlled during the year.

The members of the Board of the Commission are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of material misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Board in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Board members had not fulfilled their reporting obligations.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Independent Audit Report for the Year Ended 30 June 2006

My opinion does not provide assurance:

- about the future viability of the Commission or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically,
- about the effectiveness of their internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



M T Spriggins
Director, Financial Audit Services

SYDNEY
19 October 2006

LEGAL AID COMMISSION OF NEW SOUTH WALES

Statement by Members of the Board

Pursuant to Section 41C (1B) of the *Public Finance and Audit Act 1983*, and in accordance with a resolution of the Legal Aid Commission of NSW, we declare on behalf of the Commission that in our opinion:

1. The accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the Financial Reporting Code for Budget Dependent General Government Sector Agencies, the applicable clauses of the *Public Finance and Audit Regulation 2005*, applicable Australian Accounting Standards, other mandatory professional reporting requirements and Treasury Accounting Policy Statements.
2. The accompanying statements exhibit a true and fair view of the financial position of the Legal Aid Commission of New South Wales as at 30 June 2006 and its transactions for the year then ended.
3. We are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.
4. It should be noted that the Commission is required to bring to account as revenue all funds received from the Commonwealth during the year. When these funds are not fully spent, the balance is held for use in subsequent years and cannot be applied for any other purpose. In 2005/06 the Commission utilised \$0.017 million of the accumulated funds as expenditure exceeded revenue for the year.



Phillip Taylor
Chairman



Bill Grant
Chief Executive Officer

18 October 2006

LEGAL AID COMMISSION OF NEW SOUTH WALES

Start of Audited Financial Statements

Operating Statement for the Year Ended 30 June 2006

| | Notes | Consolidated | | | Parent | |
|--|-------|----------------|----------------|----------------|----------------|----------------|
| | | Actual | Actual | Budget | Actual | Actual |
| | | 2006 | 2005 | 2006 | 2006 | 2005 |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Expenses excluding losses | | | | | | |
| Operating expenses | | | | | | |
| Employee related | 2(a) | 44,363 | 56,840 | 57,802 | - | - |
| Personnel services | 2(a) | - | - | - | 44,363 | 56,840 |
| Other operating expenses | 2(b) | 15,907 | 14,892 | 13,879 | 15,907 | 14,892 |
| Depreciation and amortisation | 2(c) | 3,281 | 2,406 | 3,000 | 3,281 | 2,406 |
| Grants and subsidies | 2(d) | 14,222 | 13,496 | 14,251 | 14,222 | 13,496 |
| Finance costs | 2(e) | 175 | 163 | - | 175 | 163 |
| Other expenses | 2(f) | 63,650 | 60,047 | 66,585 | 63,650 | 60,047 |
| Total Expenses excluding losses | | 141,598 | 147,844 | 155,517 | 141,598 | 147,844 |
| Less: | | | | | | |
| Revenue | | | | | | |
| Sale of goods and services | 3(a) | 49,316 | 47,719 | 46,186 | 49,316 | 47,719 |
| Investment income | 3(b) | 3,610 | 2,696 | 1,902 | 3,610 | 2,696 |
| Grants and contributions | 3(c) | 32,580 | 26,271 | 25,196 | 32,580 | 26,271 |
| Other revenue | 3(d) | 137 | 123 | 154 | 137 | 123 |
| Total Retained Revenue | | 85,643 | 76,809 | 73,438 | 85,643 | 76,809 |
| Loss on disposal | 4 | 8 | 41 | - | 8 | 41 |
| Other losses | 5 | 143 | 292 | - | 143 | 292 |
| Net Cost of Services | 24 | 56,106 | 71,368 | 82,079 | 56,106 | 71,368 |
| Government Contributions | | | | | | |
| Recurrent appropriation | 7(a) | 80,952 | 75,469 | 82,927 | 80,952 | 75,469 |
| Capital appropriation | 7(b) | 1,931 | 3,753 | 3,716 | 1,931 | 3,753 |
| Total Government Contributions | | 82,883 | 79,222 | 86,643 | 82,883 | 79,222 |
| SURPLUS FOR THE YEAR | | 26,777 | 7,854 | 4,564 | 26,777 | 7,854 |

The accompanying notes form part of these financial statements

LEGAL AID COMMISSION OF NEW SOUTH WALES

Statement of Changes in Equity for the Year Ended 30 June 2006

| | Notes | Consolidated | | | Parent | |
|---|-------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 2006 \$'000 | Actual 2005 \$'000 | Budget 2006 \$'000 | Actual 2006 \$'000 | Actual 2005 \$'000 |
| TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY | | - | - | - | - | - |
| Surplus for the Year | | 26,777 | 7,854 | 4,564 | 26,777 | 7,854 |
| TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR | 18 | 26,777 | 7,854 | 4,564 | 26,777 | 7,854 |

The accompanying notes form part of these financial statements

LEGAL AID COMMISSION OF NEW SOUTH WALES

Balance Sheet as at 30 June 2006

| | Notes | Consolidated | | | Parent | |
|--------------------------------------|-------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 2006 \$'000 | Actual 2005 \$'000 | Budget 2006 \$'000 | Actual 2006 \$'000 | Actual 2005 \$'000 |
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | 12 | 52,003 | 36,253 | 40,001 | 52,003 | 36,253 |
| Receivables | 13 | 5,639 | 4,857 | 4,133 | 5,639 | 4,857 |
| Other | 16 | 2,861 | - | 4,026 | 2,861 | - |
| Total Current Assets | | 60,503 | 41,110 | 48,160 | 60,503 | 41,110 |
| Non-Current Assets | | | | | | |
| Receivables | 13 | 2,391 | 2,493 | 2,493 | 2,391 | 2,493 |
| Plant and equipment | 14 | 10,190 | 10,222 | 10,212 | 10,190 | 10,222 |
| Intangible assets | 15 | 1,466 | 2,133 | 2,654 | 1,466 | 2,133 |
| Total Non-Current Assets | | 14,047 | 14,848 | 15,359 | 14,047 | 14,848 |
| Total Assets | | 74,550 | 55,958 | 63,519 | 74,550 | 55,958 |
| LIABILITIES | | | | | | |
| Current Liabilities | | | | | | |
| Payables | 17 | 14,373 | 14,563 | 14,563 | 14,373 | 14,563 |
| Provisions | 18 | 16,115 | 24,290 | 5,509 | 16,115 | 24,290 |
| Total Current Liabilities | | 30,488 | 38,853 | 20,072 | 30,488 | 38,853 |
| Non-Current Liabilities | | | | | | |
| Provisions | 18 | 3,798 | 3,598 | 19,280 | 3,798 | 3,598 |
| Other | 19 | - | 20 | 20 | - | 20 |
| Total Non-Current Liabilities | | 3,798 | 3,618 | 19,300 | 3,798 | 3,618 |
| Total Liabilities | | 34,286 | 42,471 | 39,372 | 34,286 | 42,471 |
| Net Assets | | 40,264 | 13,487 | 24,147 | 40,264 | 13,487 |
| EQUITY | | | | | | |
| Accumulated Funds | 20 | 40,264 | 13,487 | 24,147 | 40,264 | 13,487 |
| Total Equity | | 40,264 | 13,487 | 24,147 | 40,264 | 13,487 |

The accompanying notes form part of these financial statements

LEGAL AID COMMISSION OF NEW SOUTH WALES

Cash Flow Statement for the Year Ended 30 June 2006

| | Notes | Consolidated | | | Parent | |
|---|-------|------------------|------------------|------------------|------------------|------------------|
| | | Actual | Actual | Budget | Actual | Actual |
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2006 \$'000 | 2005 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Payments | | | | | | |
| Employee related | | (55,161) | (52,376) | (56,302) | - | - |
| Grants and subsidies | | (14,222) | (13,496) | (14,251) | (14,222) | (13,496) |
| Personnel services | | - | - | - | (55,161) | (52,376) |
| Other | | (89,963) | (83,859) | (89,707) | (89,963) | (83,859) |
| Total Payments | | (159,346) | (149,731) | (160,260) | (159,346) | (149,731) |
| Receipts | | | | | | |
| Sale of goods and services | | 48,213 | 46,894 | 45,840 | 48,213 | 46,894 |
| Interest received | | 3,514 | 2,617 | 1,902 | 3,514 | 2,617 |
| Other | | 43,076 | 35,601 | 34,939 | 43,076 | 35,601 |
| Total Receipts | | 94,803 | 85,112 | 82,681 | 94,803 | 85,112 |
| Cash Flows from Government | | | | | | |
| Recurrent appropriation | | 80,952 | 75,469 | 82,927 | 80,952 | 75,469 |
| Capital appropriation | | 1,931 | 3,753 | 3,716 | 1,931 | 3,753 |
| Net Cash Flows from Government | | 82,883 | 79,222 | 86,643 | 82,883 | 79,222 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 24 | 18,340 | 14,603 | 9,064 | 18,340 | 14,603 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds from sale of plant and equipment | | 5 | 28 | - | 5 | 28 |
| Purchases of plant and equipment | | (2,595) | (5,116) | (5,316) | (2,595) | (5,116) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (2,590) | (5,088) | (5,316) | (2,590) | (5,088) |
| NET INCREASE IN CASH | | 15,750 | 9,515 | 3,748 | 15,750 | 9,515 |
| Opening cash and cash equivalents | | 36,253 | 26,738 | 36,253 | 36,253 | 26,738 |
| CLOSING CASH AND CASH EQUIVALENTS | 12 | 52,003 | 36,253 | 40,001 | 52,003 | 36,253 |

The accompanying notes form part of these financial statements

Program Statement—Expenses and Revenues for the Year Ended 30 June 2006 (The Program Statement applies to both Parent and Consolidated Entities)

| | Program 1* Family Law | | Program 2* Criminal Law | | Program 3* Civil Law | | Program 4* Community Legal Services | | Not Attributable | | Total | |
|---|--------------------------|-----------------|----------------------------|-----------------|-------------------------|----------------|---|----------------|---------------------|-----------------|-----------------|-----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| AGENCY EXPENSES AND REVENUES | | | | | | | | | | | | |
| Expenses excluding losses | | | | | | | | | | | | |
| Operating expenses | 14,375 | 17,633 | 23,776 | 30,902 | 5,935 | 7,886 | 277 | 419 | - | - | 44,363 | 56,840 |
| Employee related/personnel services | 5,149 | 4,827 | 8,236 | 7,778 | 2,314 | 2,081 | 208 | 206 | - | - | 15,907 | 14,892 |
| Other operating expenses | 1,092 | 838 | 1,739 | 1,224 | 437 | 330 | 13 | 14 | - | - | 3,281 | 2,406 |
| Depreciation and amortisation | - | - | - | - | - | - | 14,222 | 13,496 | - | - | 14,222 | 13,496 |
| Grants and subsidies | 58 | 57 | 94 | 83 | 23 | 22 | - | 1 | - | - | 175 | 163 |
| Finance costs | 25,732 | 22,739 | 34,082 | 33,836 | 3,836 | 3,472 | - | - | - | - | 63,650 | 60,047 |
| Total Expenses excluding losses | 46,406 | 46,094 | 67,927 | 73,823 | 12,545 | 13,791 | 14,720 | 14,136 | - | - | 141,598 | 147,844 |
| Revenue | | | | | | | | | | | | |
| Sale of goods and services | (38,576) | (36,624) | (5,483) | (6,092) | (5,257) | (5,003) | - | - | - | - | (49,316) | (47,719) |
| Investment income | (878) | (669) | (2,389) | (1,767) | (343) | (260) | - | - | - | - | (3,610) | (2,696) |
| Grants and contributions | (1,833) | (854) | (19,740) | (14,983) | (4,549) | (3,912) | (6,458) | (6,522) | - | - | (32,580) | (26,271) |
| Other revenue | (19) | (40) | (105) | (79) | (12) | (4) | (1) | - | - | - | (137) | (123) |
| Total Revenue | (41,306) | (38,187) | (27,717) | (22,921) | (10,161) | (9,179) | (6,459) | (6,522) | - | - | (85,643) | (76,809) |
| (Gain)/loss on disposal | 8 | (8) | - | - | - | - | - | - | - | 49 | 8 | 41 |
| Other (gains)/losses | 144 | 160 | 50 | 39 | (51) | 93 | - | - | - | - | 143 | 292 |
| Net Cost of Services | 5,252 | 8,059 | 40,260 | 50,941 | 2,333 | 4,705 | 8,261 | 7,614 | - | 49 | 56,106 | 71,368 |
| Government Contributions ** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| NET EXPENDITURE/(REVENUE) FOR THE YEAR | 5,252 | 8,059 | 40,260 | 50,941 | 2,333 | 4,705 | 8,261 | 7,614 | (82,883) | (79,173) | (26,777) | (7,854) |

* The name and purpose of each program is summarised in Note 11.

** Appropriations are made on an agency basis and not to individual programs. Consequently, government contributions must be included in the 'Not Attributable' column.

Summary of Compliance with Financial Directives

(The Summary of Compliance with Financial Directives applies to both Parent and Consolidated Entities)

| | 2006 | | | | 2005 | | | |
|--|--------------------------------|--|------------------------------|--|--------------------------------|--|------------------------------|--|
| | Recurrent Appropriation \$'000 | Expenditure/ Net Claim on Consolidated Fund \$'000 | Capital Appropriation \$'000 | Expenditure/ Net Claim on Consolidated Fund \$'000 | Recurrent Appropriation \$'000 | Expenditure/ Net Claim on Consolidated Fund \$'000 | Capital Appropriation \$'000 | Expenditure/ Net Claim on Consolidated Fund \$'000 |
| ORIGINAL BUDGET APPROPRIATION /EXPENDITURE | | | | | | | | |
| Appropriation Act | 82,927 | 80,952 | 3,716 | 1,931 | 75,087 | 2,937 | 2,937 | 1,140 |
| Additional appropriations | - | - | - | - | 511 | - | - | - |
| S21A PF&AA - special appropriation | - | - | - | - | - | - | - | - |
| S24 PF&AA - transfers of functions between departments | - | - | - | - | - | - | - | - |
| S26 PF&AA - Commonwealth specific purpose payments | - | - | - | - | - | - | - | - |
| | 82,927 | 80,952 | 3,716 | 1,931 | 75,598 | 2,937 | 2,937 | 1,140 |
| OTHER APPROPRIATIONS/ EXPENDITURE | | | | | | | | |
| Treasurer's Advance | - | - | - | - | - | 129 | - | 129 |
| Section 22 - expenditure for certain works and services | - | - | - | - | - | - | - | - |
| Transfers to/from another agency (s28 of the <i>Appropriation Act</i>) | (1,300) | - | - | - | - | 2,484 | - | 2,484 |
| Enforced Savings - Reduction due to Capital Supplementation | - | - | - | - | (129) | - | - | - |
| | (1,300) | - | - | - | (129) | 2,613 | - | 2,613 |
| Total Appropriations/Expenditure/ Net Claim on Consolidated Fund (includes transfer payments) | 81,627 | 80,952 | 3,716 | 1,931 | 75,469 | 5,550 | 5,550 | 3,753 |
| Amount drawn down against Appropriation | | 80,952 | | 1,931 | | | | 3,753 |
| Liability to Consolidated Fund | | - | | - | | | | - |

Note: The Summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed).

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting Entity**

The Legal Aid Commission of NSW (the Commission) comprises all entities under its control, namely, the Office of the Legal Aid Commission and Legal Aid Commission Temporary Staff Division. Transactions relating to the Legal Aid Commission Trust Account and the General Trust Fund are not included in the financial statements of the Commission, as the Commission does not control or use these funds for the achievement of its objectives.

In the process of preparing the consolidated financial report for the economic entity consisting of the controlling and controlled entities, namely, the Office of the Legal Aid Commission and Legal Aid Commission Temporary Staff Division, all inter-entity transactions and balances have been eliminated.

The Legal Aid Commission of NSW is a NSW statutory authority. The Commission is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

This consolidated financial report for the year ended 30 June 2006 has been authorised for issue by the Board on 18 October 2006.

(b) Basis of Preparation

The Commission's financial report is a general purpose financial report which has been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian equivalents to International Financial Reporting Standards (AIFRS));
- the requirements of the *Public Finance and Audit Act 1983* and Regulations; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer.

Plant and equipment and intangible assets are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations management as made are disclosed in the relevant notes to the financial report.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of Compliance

The consolidated and parent entity financial statements and notes comply with Australian

Accounting Standards, which include AIFRS.

This is the first financial report prepared based on AIFRS and comparatives for the Year Ended 30 June 2005 have been restated accordingly, except as stated below.

In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and Treasury Mandates, the date of transition to AASB 132 *Financial Instruments Recognition and Measurement* has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the Year Ended 30 June 2005.

The basis used to prepare the 2004/05 comparative information for financial instruments under previous Australian Accounting Standards is discussed in Note 1(x) below. The financial instrument accounting policies for 2005/06 are specified in Notes 1(r), 1(s) and 1(u) below.

Reconciliations of AIFRS equity and surplus or deficit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 27. This note also includes separate disclosure of the 1 July 2005 equity adjustments arising from the adoption of AASB 132 and AASB 139.

(d) Administered Activities

The Commission does not administer or control any activities on behalf of the Crown Entity.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are discussed below.

(i) Parliamentary Appropriations and Contributions

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as revenue when the agency obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are now accounted for as liabilities rather than revenue. The Commission had no liability to the Consolidated Fund as at 30 June 2006.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

(ii) Rendering of Services

Revenue is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date).

(iii) Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

(f) Employee Benefits, Personnel Services and Other Provisions**(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs**

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within 12 months is measured at present value in accordance with AASB 119 *Employee Benefits*. Market yields on government bonds of 5.79% (5.5% in 2004/05) are used to discount long-term annual leave.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the entitlements accrued in the future.

The outstanding amounts of payroll tax and workers' compensation insurance premiums which are consequential to employment are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

(ii) Long Service Leave and Superannuation

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 06/09) to employees with five or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value at a rate of 9.74% (9.9% in 2004/05).

The Commission's superannuation position is calculated based on economic assumptions determined by the independent actuary, William Mercer Ltd, as advised by the SAS Trustee Corporation (STC). All Fund assets are invested

by STC at arm's length through independent fund managers. Any variation between the Commission's gross superannuation liability and employer reserve account balance is recognised in the Balance Sheet as an unfunded liability or prepaid contribution. Actuarial gains and losses are recognised in profit or loss in the year they occur. Refer Notes 2(a), 8, 16 & 18.

(iii) Personnel Services

To enable the Commission to carry out its functions, all personnel service requirements are provided by the Office of Legal Aid Commission which is a special purpose service entity that is a division of the Government of New South Wales. The personnel service is charged at cost and a management agreement for the payment of these services will be signed in 2006-07.

(iv) Other Provisions

Other provisions exist when: the entity has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted at 7.5%, which reflects the current market assessments of the time value of money and the risks specific to the liability.

(g) Insurance

The Commission's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(h) Accounting for the Goods and Services Tax (GST)

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

- the amount of GST incurred by the Commission as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- receivables and payables are stated with the amount of GST included.

(i) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Commission. Cost is the amount of cash or cash equivalents paid or the fair value of the other

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent i.e. deferred payment amount is effectively discounted at an asset-specific rate.

(j) Capitalisation Thresholds

Plant and equipment and intangible assets costing \$1,000 and above individually (or forming part of a network costing more than \$1,000) are capitalised.

(k) Revaluation of Plant and Equipment

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper (TPP 05-03). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment*.

The Commission's plant and equipment are non-specialised assets with short useful lives and are measured at depreciated historical cost, as a surrogate for fair value.

(l) Impairment of Plant and Equipment

As a not-for-profit entity with no cash generating units, the Commission is effectively exempted from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(m) Depreciation of Plant and Equipment

Depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Commission. Leasehold improvements are amortised over the unexpired period of the lease or estimated useful life whichever is the lesser. Refer Notes 2(c) and 14.

Applicable depreciation rates for each class of depreciable assets are listed below:

| | % |
|-------------------------------|-------|
| Computer Equipment | 20-25 |
| Computer Replacement Projects | 25 |
| Office Equipment | 15 |
| Furniture and Fittings | 12.5* |

*Or the term of lease

(n) Restoration Costs

The estimated cost of dismantling and removing an asset and restoring the site is included in the cost of an asset, to the extent it is recognised as a liability.

(o) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

(p) Leased Assets

The Commission does not have any finance leases for its leased assets. Operating lease payments are charged to the Operating Statement in the periods in which they are incurred. Refer to Note 21(b).

(q) Intangible Assets

The Commission recognises intangible assets only if it is probable that future economic benefits will flow to the Commission and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

The useful lives of intangible assets are assessed to be finite. As there is no active market for the Commission's intangible assets, the assets are carried at cost less any accumulated amortisation. The Commission's intangible assets are amortised using the straight line method over a period of 5 years. Refer Note 2(c) and 15.

As a not-for-profit entity with no cash generating units, the Commission is effectively exempted from impairment testing (refer para (l)).

(r) Receivables – Year ended 30 June 2006 (refer Note 1 (x) for 2004/05 policy)

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

effective interest method, less an allowance for any impairment of receivables. Any changes are accounted for in the Operating Statement when impaired.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(s) Impairment of financial assets

An allowance for impairment is established for the Commission's receivables where there is objective evidence that the Commission will not be able to collect all amounts due.

The amount of an impairment loss is recognised in the Operating Statement. Any reversals of impairment losses are reversed through the Operating Statement where there is objective evidence.

(t) Trust Funds

The Commission receives monies in a trustee capacity for trusts as set out in Note 25. As the Commission performs a custodial role in respect of these monies, and because the monies cannot be used for the achievement of the Commission's own objectives, they are not brought to account in the financial statements.

(u) Payables – Year ended 30 June 2006 (refer Note 1 (x) for 2004/05 policy)**(i) Incurred Liability**

These amounts represent liabilities for goods and services provided to the agency and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(ii) Estimated Liability for Legal Expenditure

An estimate of the net cost of work in progress by external legal practitioners for referred casework undertaken but not invoiced as at balance date has been included as a provision in the financial statements. The estimate is based on a system-calculated proportion of actual claims paid on a rolling prior twelve months for each matter type. Refer to Notes 2(f) & 17.

The estimated net cost of referred work that is yet to be performed on current grants of aid is disclosed by way of a note. Refer to Note 21(a).

(v) Budgeted amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and/or s 26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Operating Statement and Cash Flow Statement are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Balance Sheet, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts i.e. per the audited financial statements (rather than carried forward estimates).

(w) Comparative Information

Comparative figures have been restated based on AEIFRS with the exception of financial instruments information, which has been prepared under the previous AGAAP Standard (AAS 33) as permitted by AASB 1.36A (refer para (x) below). The transition to AEIFRS for financial instruments information was 1 July 2005. The impact of adopting AASB 132/139 is further discussed in Note 27.

(x) Financial instruments accounting policy for 2004/05 comparative period**Investment income**

Interest revenue is recognised as it accrues.

Receivables

Receivables are recognised and carried at cost, based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Payables

These amounts represent liabilities for goods and services provided to the agency.

(y) New Australian Accounting Standards issued but not effective

The following new Accounting Standards have not been applied and are not yet effective:

- AASB 119 (December 2004) *Employee Benefits*;
- AASB 2004-3 amendments to AASB 119 *Employee Benefits*;
- AASB/*Financial Instruments: Disclosures*;
- AASB 2005-10 amendments to AASB 7 *Financial Instruments: Disclosures*.

The possible impact of these Standards in the period of initial application is uncertain.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

2 EXPENSES**(a) Employee related expenses and personnel services****Employee related expenses**

Salaries and wages (including recreation leave)
 Superannuation—defined benefit plans
 Superannuation—defined contribution plans
 Long service leave
 Workers' compensation insurance
 Payroll tax

Total

The Commission does not employ staff that are directly involved in day-to-day servicing or maintenance.

No salaries and wages expenditure was capitalised in 2005/06 (\$0.624m in 2004/05).

Personnel services

Personnel services provided by the Office of the Legal Aid Commission

Total

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Salaries and wages (including recreation leave) | 46,726 | 43,964 | - | - |
| Superannuation—defined benefit plans | (10,441) | 4,870 | - | - |
| Superannuation—defined contribution plans | 3,019 | 2,970 | - | - |
| Long service leave | 1,608 | 1,718 | - | - |
| Workers' compensation insurance | 301 | 275 | - | - |
| Payroll tax | 3,150 | 3,043 | - | - |
| Total | 44,363 | 56,840 | - | - |
| Personnel services provided by the Office of the Legal Aid Commission | - | - | 44,363 | 56,840 |
| Total | - | - | 44,363 | 56,840 |

The Commission's staff were supplied by the Legal Aid Commission (the department under Schedule 1 of the *Public Sector Employment and Management Act 2002*) until 17 March 2006 and by the Office of Legal Aid Commission from 17 March 2006. In prior periods, the financial report of the Legal Aid Commission (the statutory authority) recognised and classified all staff related expenses and liabilities as employee benefits, as if the staff were employed by the statutory authority. This policy was adopted because the statutory authority was responsible for meeting these expenses and liabilities. Following amendments to the *Public Sector Employment and Management Act 2002* on 17 March 2006, the NSW Treasury clarified accounting requirements for staff used by one entity who were employees of another entity under the *Public Sector Employment and Management Act 2002*. The Commission should have been accounting for its staff costs as "Personnel Services" to reflect that other organisations supplied personnel services to the Entity. To correct this, amounts previously disclosed as employee related expenses and liabilities have been reclassified as "Personnel Services". This prior adjustment has no impact on the operating result or equity of the current or prior reporting periods.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| (b) Other operating expenses | | | | |
| Other operating expenses include the following: | | | | |
| Operating lease rental expense - minimum lease payments | 5,533 | 5,667 | 5,533 | 5,667 |
| Telephone | 653 | 660 | 653 | 660 |
| Library resources | 672 | 601 | 672 | 601 |
| Consultants | 172 | 295 | 172 | 295 |
| Contractors | 1,636 | 693 | 1,636 | 693 |
| Stationery, stores and provisions | 505 | 384 | 505 | 384 |
| Computer running costs | 1,051 | 1,402 | 1,051 | 1,402 |
| Printing | 157 | 169 | 157 | 169 |
| Records management | 473 | 419 | 473 | 419 |
| Travel compensation | 602 | 459 | 602 | 459 |
| Interpreters' fees (non-case) | 272 | 256 | 272 | 256 |
| Postage | 351 | 365 | 351 | 365 |
| Cleaning | 224 | 199 | 224 | 199 |
| Practicing certificates | 189 | 184 | 189 | 184 |
| Electricity and gas | 263 | 206 | 263 | 206 |
| Insurance | 78 | 98 | 78 | 98 |
| Auditor's remuneration - audit or review of financial reports | 116 | 60 | 116 | 60 |
| Internal audit and audit of Trust Account | 130 | 80 | 130 | 80 |
| Courier and freight | 42 | 44 | 42 | 44 |
| Expenses written back | - | 529 | - | 529 |
| Maintenance | 1,789 | 1,159 | 1,789 | 1,159 |
| Other | 999 | 963 | 999 | 963 |
| Total | 15,907 | 14,892 | 15,907 | 14,892 |
| (c) Depreciation and amortisation expenses | | | | |
| Depreciation | | | | |
| Fit-out costs - office accommodation | 1,390 | 1,234 | 1,390 | 1,234 |
| Other plant and equipment | 1,224 | 658 | 1,224 | 658 |
| | 2,614 | 1,892 | 2,614 | 1,892 |
| Amortisation | | | | |
| Software | 667 | 514 | 667 | 514 |
| Total | 3,281 | 2,406 | 3,281 | 2,406 |
| Refer Notes 1(m), 1(q), 14 & 15. | | | | |
| (d) Grants and subsidies | | | | |
| Domestic Violence Court Assistance Program | 3,829 | 3,264 | 3,829 | 3,264 |
| Community Legal Centres | 10,393 | 10,232 | 10,393 | 10,232 |
| Total | 14,222 | 13,496 | 14,222 | 13,496 |
| Grants to Community Legal Centres are funded by way of specific Commonwealth and discretionary State funds. | | | | |
| (e) Finance costs | | | | |
| Unwinding of discount rate | 175 | 163 | 175 | 163 |
| Total | 175 | 163 | 175 | 163 |

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

(f) Other expenses

Solicitor services provided by private practitioners
 Barrister services provided by private practitioners
 Disbursements

Total

Includes an estimate of the net cost of work in progress by external legal practitioners who have provided services but not submitted an invoice to the Commission at balance date.

3 REVENUE**(a) Sale of goods and services****Rendering of services**

Family Law
 Criminal Law
 Civil Law
 Commonwealth funding¹

Total

¹Base funding of \$45.054m (\$44.084m in 2004/05) was received from the Commonwealth Government under the Provision of Legal Assistance Agreement. This is a four-year agreement between the Commission and the Commonwealth that commenced on 1 July 2004. In the second year of the agreement, expenditure exceeded income by \$0.017m (income exceeded expenditure by \$1.104m in 2004/05).

(b) Investment income

Interest on outstanding accounts
 Interest on cash assets

Total

Refer to Notes 1(e)(iii), 1(x) & 26(c)

(c) Grants and contributions

Law Society Public Purpose Fund¹
 Commonwealth Government Community Legal Centre base grants²
 Other grants and contributions³

Total

¹This fund provided a grant of \$23.190m (\$18.385m in 2004/05) to provide legal aid services in State matters.

Other specific grants from this fund include:

Environmental Defenders Office
 Public Interest Advocacy Centre
 Expansion of court assistance to children

Total

²\$5.192m in Community Legal Centre (CLC) base grants (\$5.063m in 2004/05) received from the Commonwealth Government were distributed to various CLCs. The amount of the grant to individual CLCs is determined by the Commonwealth.

| | Consolidated | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Solicitor services provided by private practitioners | 39,382 | 35,134 | 39,382 | 35,134 |
| Barrister services provided by private practitioners | 15,804 | 17,031 | 15,804 | 17,031 |
| Disbursements | 8,464 | 7,882 | 8,464 | 7,882 |
| Total | 63,650 | 60,047 | 63,650 | 60,047 |
| Family Law | 1,420 | 1,294 | 1,420 | 1,294 |
| Criminal Law | 1,665 | 1,349 | 1,665 | 1,349 |
| Civil Law | 1,177 | 992 | 1,177 | 992 |
| Commonwealth funding ¹ | 45,054 | 44,084 | 45,054 | 44,084 |
| Total | 49,316 | 47,719 | 49,316 | 47,719 |
| Interest on outstanding accounts | 100 | 113 | 100 | 113 |
| Interest on cash assets | 3,510 | 2,583 | 3,510 | 2,583 |
| Total | 3,610 | 2,696 | 3,610 | 2,696 |
| Law Society Public Purpose Fund ¹ | 24,457 | 19,594 | 24,457 | 19,594 |
| Commonwealth Government Community Legal Centre base grants ² | 5,192 | 5,063 | 5,192 | 5,063 |
| Other grants and contributions ³ | 2,931 | 1,614 | 2,931 | 1,614 |
| Total | 32,580 | 26,271 | 32,580 | 26,271 |
| Environmental Defenders Office | 478 | 462 | 478 | 462 |
| Public Interest Advocacy Centre | 550 | 536 | 550 | 536 |
| Expansion of court assistance to children | 239 | 211 | 239 | 211 |
| Total | 1,267 | 1,209 | 1,267 | 1,209 |

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| ³ Other Grants and contributions include: | | | | |
| - Part of the Commonwealth Government Community Legal Centre base grants used to meet administrative costs | 28 | 95 | 28 | 95 |
| - Commonwealth Government special purposes funds for refugee matters under separate contract | 160 | 131 | 160 | 131 |
| - State Department of Juvenile Justice for the Juvenile Justice Visiting Legal Service | 240 | 147 | 240 | 147 |
| - State Attorney General's Department Youth Drug Court | 114 | 86 | 114 | 86 |
| - State Attorney General's Department - to establish and run video conferencing facilities within the Commission | 306 | 81 | 306 | 81 |
| - NSW Police - ERISP Project | 24 | - | 24 | - |
| - Commonwealth Government special funding for expensive criminal cases | 2,059 | 1,074 | 2,059 | 1,074 |
| Total | 2,931 | 1,614 | 2,931 | 1,614 |
| (d) Other revenue | | | | |
| Miscellaneous | 137 | 123 | 137 | 123 |
| Total | 137 | 123 | 137 | 123 |
| 4 LOSS ON DISPOSAL | | | | |
| Loss on disposal of plant and equipment | | | | |
| Proceeds from disposal | 5 | 28 | 5 | 28 |
| Less: Written down value of assets disposed | 13 | 69 | 13 | 69 |
| Total | (8) | (41) | (8) | (41) |
| 5 OTHER LOSSES | | | | |
| Impairment loss on receivables | 143 | 292 | 143 | 292 |
| Total | 143 | 292 | 143 | 292 |
| 6 CONDITIONS ON CONTRIBUTIONS | | | | |
| All funds received from the Commonwealth in a financial year are required to be brought to account as revenue in that reporting period. Any funds not spent in a year must be carried forward for use in subsequent years and may not be applied for any other purpose. The Commission will carry forward \$4.600m of unspent funds at 30 June 2006 to be utilised in future years (\$4.617m was carried forward at 30 June 2005). | | | | |
| 7 APPROPRIATIONS | | | | |
| (a) Recurrent Appropriations | | | | |
| Total recurrent drawdowns from Treasury (per Summary of Compliance) ¹ | 80,952 | 75,469 | 80,952 | 75,469 |
| Total | 80,952 | 75,469 | 80,952 | 75,469 |
| Comprising: | | | | |
| Recurrent appropriations (per Operating Statement) | 80,952 | 75,469 | 80,952 | 75,469 |
| Total | 80,952 | 75,469 | 80,952 | 75,469 |

¹The Consolidated Fund Appropriation includes State Government's special purpose recurrent funding and other specific schemes.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

(b) Capital Appropriations

Total capital drawdowns from Treasury (per Summary of Compliance)¹

Total

Comprising:

Capital appropriations (per Operating Statement)

Total

¹Actual capital expenditure was below the capital appropriation by \$1.785m and was due primarily to a change in the timing of the replacement of the Commission's core business system.

8 INDIVIDUALLY SIGNIFICANT ITEMS

The Commission's financial position for the State Authorities Superannuation schemes changed from an unfunded liability in 2004/05 to a net surplus at 30 June 2006 resulting in \$12.098m being taken up as a reduction to the superannuation expense for the year.

State Authorities Superannuation schemes surplus/(deficit)

Total

| Consolidated | | Parent | |
|--------------|----------------|--------------|--------------|
| 2006 | 2005 | 2006 | 2005 |
| \$'000 | \$'000 | \$'000 | \$'000 |
| 1,931 | 3,753 | 1,931 | 3,753 |
| 1,931 | 3,753 | 1,931 | 3,753 |
| 1,931 | 3,753 | 1,931 | 3,753 |
| 1,931 | 3,753 | 1,931 | 3,753 |
| 2,530 | (9,568) | - | - |
| 2,530 | (9,568) | - | - |

9 ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE ENTITLEMENTS AND OTHER LIABILITIES

There are no liabilities and/or expenses that have been assumed by the Crown Entity or other government agencies.

10 TRANSFER PAYMENTS

The Commission did not have any transfer payments in 2005/06 (nil in 2004/05).

11 PROGRAMS/ACTIVITIES OF THE COMMISSION**Program 1*****Legal Aid and Other Legal Services for Eligible Persons in Disputes Arising from Family Relationships***

Objective: To provide legal services for eligible persons under Commonwealth Family law and relevant State legislation.
To promote the role of alternative dispute resolution in family law matters.

Program 2***Legal Aid and Other Legal Services for Eligible Persons in Criminal Law Matters***

Objective: To provide legal services for eligible persons in relation to criminal charges, including domestic violence.

Program 3***Legal Aid and Other Legal Services for Eligible Persons in Civil Law Matters***

Objective: To provide legal services for eligible persons in civil law matters that fall within Commission guidelines.

Program 4***Funding for Community Legal Centres and Other Community Legal Services***

Objective: To provide community based legal services in generalist and specialised legal areas. To provide court assistance and other support to female victims of domestic violence. To undertake community legal education and provide advice to the socially and economically disadvantaged.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

12 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and on hand
Short term deposits

Total Cash

Refer to Notes 26(a) & 26(c).

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash on hand, cash at bank and short term deposits.

Cash and cash equivalent assets recognised in the Balance Sheet are reconciled at the end of the financial year to the Cash Flow Statement as follows:

Cash and cash equivalents (per Balance Sheet)

Closing cash and cash equivalents (per Cash Flow Statement)

The Commission has a business credit card facility of \$0.015m (same in 2004/05), which is the total of the credit limit for all issued credit cards. The balance in this facility is cleared monthly.

13 CURRENT/NON-CURRENT ASSETS-RECEIVABLES**Current**

Sale of goods and services
Less: Allowance for impairment

Other debtors
GST recoverable from Australian Taxation Office
Prepayments

Total Current**Non-Current**

Sale of goods and services
Less: Allowance for impairment

Total Non-Current

Receivables from the sale of goods and services (both current and non-current) in the amount of \$3.083m (\$3.238m in 2004/05) are secured by way of caveat.

14 NON-CURRENT ASSETS - PLANT AND EQUIPMENT**Previous year**

Gross Carrying Amount
Less: Accumulated depreciation and impairment

Net Carrying Amount at Fair Value**Current year**

Gross Carrying Amount
Less: Accumulated depreciation and impairment

Net Carrying Amount at Fair Value

| Consolidated | | Parent | |
|---------------|---------------|---------------|---------------|
| 2006 | 2005 | 2006 | 2005 |
| \$'000 | \$'000 | \$'000 | \$'000 |
| 302 | 1,152 | 302 | 1,152 |
| 51,701 | 35,101 | 51,701 | 35,101 |
| 52,003 | 36,253 | 52,003 | 36,253 |
| 52,003 | 36,253 | 52,003 | 36,253 |
| 52,003 | 36,253 | 52,003 | 36,253 |
| 1,415 | 1,258 | 1,415 | 1,258 |
| 275 | 287 | 275 | 287 |
| 1,140 | 971 | 1,140 | 971 |
| 668 | 435 | 668 | 435 |
| 2,116 | 2,727 | 2,116 | 2,727 |
| 1,715 | 724 | 1,715 | 724 |
| 5,639 | 4,857 | 5,639 | 4,857 |
| 3,644 | 3,882 | 3,644 | 3,882 |
| 1,253 | 1,389 | 1,253 | 1,389 |
| 2,391 | 2,493 | 2,391 | 2,493 |
| 22,700 | 18,923 | 22,700 | 18,923 |
| 12,478 | 10,686 | 12,478 | 10,686 |
| 10,222 | 8,237 | 10,222 | 8,237 |
| 25,209 | 22,700 | 25,209 | 22,700 |
| 15,019 | 12,478 | 15,019 | 12,478 |
| 10,190 | 10,222 | 10,190 | 10,222 |

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Reconciliation | | | | |
| A reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current reporting period is set out below. | | | | |
| Net carrying amount at start of year | 10,222 | 8,237 | 10,222 | 8,237 |
| Additions | 2,595 | 3,946 | 2,595 | 3,946 |
| Disposals | (87) | (169) | (87) | (169) |
| Depreciation expense | (2,614) | (1,892) | (2,614) | (1,892) |
| Write back on disposal | 74 | 100 | 74 | 100 |
| Net carrying amount at end of year | 10,190 | 10,222 | 10,190 | 10,222 |
| Refer Notes 1(m) & 2(c). | | | | |
| 15 INTANGIBLE ASSETS | | | | |
| Previous year | | | | |
| Gross Carrying Amount | 4,448 | 3,807 | 4,448 | 3,807 |
| Less: Accumulated depreciation and impairment | 2,315 | 1,861 | 2,315 | 1,861 |
| Net Carrying Amount at Fair Value | 2,133 | 1,946 | 2,133 | 1,946 |
| Current year | | | | |
| Gross Carrying Amount | 4,448 | 4,448 | 4,448 | 4,448 |
| Less: Accumulated depreciation and impairment | 2,982 | 2,315 | 2,982 | 2,315 |
| Net Carrying Amount at Fair Value | 1,466 | 2,133 | 1,466 | 2,133 |
| Reconciliation | | | | |
| A reconciliation of the carrying amounts of intangible assets at the beginning and end of the current reporting period is set out below. | | | | |
| Net carrying amount at start of year | 2,133 | 1,946 | 2,133 | 1,946 |
| Additions (from internal development or acquired separately) | - | 1,170 | - | 1,170 |
| Amortisation (recognised in "depreciation and amortisation") | (667) | (514) | (667) | (514) |
| Expenses written back | - | (529) | - | (529) |
| Write back on derecognition of assets | - | 60 | - | 60 |
| Net carrying amount at end of year | 1,466 | 2,133 | 1,466 | 2,133 |
| Refer Notes 1(q) & 2(c). | | | | |
| 16 CURRENT ASSETS—OTHER | | | | |
| Prepaid Superannuation Contributions Reserve ¹ | 2,861 | - | - | - |
| Receivable from the Office of the Legal Aid Commission | - | - | 2,861 | - |
| Total | 2,861 | - | 2,861 | - |

¹Represents the balance of the Prepaid Superannuation Contributions Reserve held by the State Authorities Superannuation Trustee Corporation (STC) for SASS and SANCS in 2005/06 (deficit of \$3.270m in 2004/05). The Prepaid Superannuation Contributions Reserve includes interest earned by the reserve.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

The Pooled Fund

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)
- State Superannuation Scheme (SSS).

These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

Refer to Notes 1(f)(ii), 2(a), 8, 18 & 27.

The position of the superannuation funds at 30 June 2006 is as follows:

| | SASS | SANCS | SSS | Total |
|--|---------------|---------------|---------------|---------------|
| Members Numbers | | | | |
| Contributors | 107 | 154 | 47 | |
| Deferred benefits | - | - | 11 | |
| Pensioners | - | - | 26 | |
| Pensions fully commuted | - | - | 14 | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accrued Liability as at 30 June 2006 | 18,379 | 4,232 | 38,504 | 61,115 |
| Less: Estimated Reserve Account | | | | |
| Closing Balance as at 30/06/06 | 20,380 | 5,092 | 38,173 | 63,645 |
| Prepaid Contributions/(Unfunded Liability) as at 30/06/06 | 2,001 | 860 | (331) | 2,530 |

The calculation of SSS, SASS and SANCS liabilities was performed by the Actuary, William Mercer Ltd and is based on the requirements of AASB 119.

Assets and liabilities recognised in the balance sheet

| | 2006 \$'000 | 2005 \$'000 |
|---|----------------|----------------|
| Present value of defined benefit obligations | 61,115 | 63,196 |
| Fair value of plan assets | (63,645) | (53,628) |
| | (2,530) | 9,568 |
| Surplus in excess of recovery available from schemes | - | - |
| Unrecognised past service cost | - | - |
| Net (asset)/liability disclosed in balance sheet | (2,530) | 9,568 |

Movement in net liability/(asset) recognised in the balance sheet

| | | |
|---|----------------|--------------|
| Net liability at start of the year | 9,568 | 6,282 |
| Net expense as recognised in operating statement | (10,441) | 4,870 |
| Contributions | (1,657) | (1,584) |
| Net (asset)/liability disclosed in balance sheet | (2,530) | 9,568 |

Total expense recognised in operating statement

| | | |
|--|-----------------|--------------|
| Current service cost | 1,641 | 1,515 |
| Interest on obligation | 3,547 | 3,277 |
| Expected return on plan assets | (4,066) | (3,405) |
| Net actuarial losses (gains) recognised in year | (11,563) | 3,483 |
| Change in surplus in excess of recovery available from schemes | - | - |
| Past service cost | - | - |
| Losses (gains) on curtailments and settlements | - | - |
| Total included in "employee benefits expense" | (10,441) | 4,870 |

Actual return on plan assets

| | |
|--------------|--------------|
| 8,600 | 6,128 |
|--------------|--------------|

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

Valuation method and principal actuarial assumptions at reporting date

(i) The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

| (ii) Economic Assumptions | 30-Jun-06 | 30-Jun-05 |
|-----------------------------------|---------------------------------------|-----------|
| Discount rate | 5.9% pa | 5.2% pa |
| Expected return on plan assets | 7.6% | 7.3% |
| Expected rate of salary increases | 4.0% pa to 2008 3.5% pa thereafter | 4% pa |
| Expected rate of CPI increase | 2.5% pa | 2.5% pa |

17 CURRENT LIABILITIES - PAYABLES

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Accrued salaries, wages and on-costs | 514 | 301 | - | - |
| Office of the Legal Aid Commission - accrued salaries, wages and on-costs | - | - | 514 | 301 |
| Creditors - Legal | 1,417 | 2,854 | 1,417 | 2,854 |
| Creditors - Administrative | 2,423 | 1,902 | 2,423 | 1,902 |
| Prepaid grants received | 188 | 104 | 188 | 104 |
| Accrual of estimated legal expenses ¹ | 9,831 | 9,402 | 9,831 | 9,402 |
| Total | 14,373 | 14,563 | 14,373 | 14,563 |

¹Being accrual of the estimated net cost of work in progress by external legal practitioners who have not submitted claims to the Commission at balance date. The allocation between current and non-current is system-generated and based on the experience of payment of accounts within 1 year and over 1 year of the work done by external legal practitioners. Refer to Notes 1(u)(ii) & 2(f).

18 CURRENT/NON-CURRENT LIABILITIES - PROVISIONS**Current****Employee benefits and related on-costs**

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Provision for recreation leave to be taken within 12 months | 4,023 | 3,846 | - | - |
| Provision for recreation leave to be taken after 12 months | 671 | 662 | - | - |
| Provision for long service leave to be taken within 12 months | 637 | 872 | - | - |
| Provision for long service leave to be taken after 12 months | 8,930 | 7,851 | - | - |
| Provision for related on-costs | 1,523 | 1,491 | - | - |
| Superannuation unfunded liability ¹ | 331 | 9,568 | - | - |
| Office of the Legal Aid Commission - provision for personnel services | - | - | 16,115 | 24,290 |
| Total Current | 16,115 | 24,290 | 16,115 | 24,290 |

¹Represents the balance of the unfunded liability held by the State Authorities Superannuation Trustee Corporation (STC) for the State Superannuation Scheme in 2005/06 (\$6.298m in 2004/05). The liability is net of the reserve account balance for the scheme. Refer Notes 1(f)(ii), 2(a), 8, 16 & 27.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Non-Current | | | | |
| Employee benefits and related on-costs | | | | |
| Provision for long service leave | 1,136 | 1,078 | - | - |
| Provision for related on-costs | 151 | 184 | - | - |
| Office of the Legal Aid Commission - provision for personnel services | - | - | 1,287 | 1,262 |
| | 1,287 | 1,262 | 1,287 | 1,262 |
| Other Provisions | | | | |
| Restoration costs ¹ | 2,511 | 2,336 | 2,511 | 2,336 |
| | 2,511 | 2,336 | 2,511 | 2,336 |
| Total Non-Current | 3,798 | 3,598 | 3,798 | 3,598 |
| Aggregate employee benefits and related on-costs | | | | |
| Provisions - current | 16,115 | 24,290 | - | - |
| Provisions - non-current | 1,287 | 1,262 | - | - |
| Accrued salaries, wages and on-costs (Note 17) | 514 | 301 | - | - |
| | 17,916 | 25,853 | - | - |
| ¹ Refers to the present value of estimated cost of make good obligations (in accordance with AASB 137) that will arise when existing office accommodation leases expire. The provision is adjusted annually for unwinding and changes in discount rates. Any cost variations in make good expenses at the time of implementation will be recognised in the operating statement. | | | | |
| Movements in provisions (other than employee benefits) | | | | |
| Carrying amount at start of financial year | 2,336 | 2,173 | 2,336 | 2,173 |
| Unwinding/change in the discount rate | 175 | 163 | 175 | 163 |
| Carrying amount at end of financial year | 2,511 | 2,336 | 2,511 | 2,336 |
| 19 NON-CURRENT LIABILITIES - OTHER | | | | |
| Lease Incentive | - | 20 | - | 20 |
| Total | - | 20 | - | 20 |
| 20 CHANGES IN EQUITY | | | | |
| Accumulated Funds | | | | |
| Balance at the beginning of the financial year | 13,487 | 5,633 | 13,487 | 5,633 |
| Surplus for the year | 26,777 | 7,854 | 26,777 | 7,854 |
| Balance at the end of the financial year | 40,264 | 13,487 | 40,264 | 13,487 |

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

21 COMMITMENTS FOR EXPENDITURE**(a) Other Expenditure Commitments**

Aggregate other expenditure contracted for at balance date and not provided for in the financial statements:

Not later than one year

Outstanding purchase orders

Estimated future commitment of external legal services¹

Later than one year and not later than 5 years

Estimated future commitment of external legal services¹

Total (including GST)

¹Represents the estimated future commitment for external legal services provided for both inhouse and assigned grants of aid. The future internal cost of cases conducted by the Commission's inhouse practice has been excluded because the amount of the liability cannot be reliably measured.

(b) Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable:

Not later than one year

Later than one year and not later than 5 years

Later than 5 years

Total (including GST)

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Outstanding purchase orders | 351 | 66 | 351 | 66 |
| Estimated future commitment of external legal services ¹ | 29,782 | 30,541 | 29,782 | 30,541 |
| Later than one year and not later than 5 years | | | | |
| Estimated future commitment of external legal services ¹ | 5,842 | 5,991 | 5,842 | 5,991 |
| Total (including GST) | 35,975 | 36,598 | 35,975 | 36,598 |
| Future non-cancellable operating lease rentals not provided for and payable: | | | | |
| Not later than one year | 6,292 | 4,793 | 6,292 | 4,793 |
| Later than one year and not later than 5 years | 19,339 | 15,941 | 19,339 | 15,941 |
| Later than 5 years | - | 2,654 | - | 2,654 |
| Total (including GST) | 25,631 | 23,388 | 25,631 | 23,388 |

Refer to Note 1(p).

The operating lease commitments above relate to the rental of office accommodation and supply of computer hardware.

The total commitments in (a) and (b) above include input tax credits of \$5.600m (\$5.453m in 2004/05) that are expected to be recoverable from the Australian Taxation Office.

22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Commission has no contingent liabilities or assets at 30 June 2006 (nil at 30 June 2005).

23 BUDGET REVIEW**Operating Statement****Net Cost of Services**

The actual net cost of services was lower than budget by \$25.973m primarily due to:

- an improvement in the net superannuation position for defined benefit superannuation schemes held on the Commission's behalf by the SAS Trustee Corporation which resulted in a downward non-cash adjustment of \$12.098m in employee related expenses. Refer notes 1(f)(ii), 2(a), 8, 16 & 18.
- lower than expected expenditure on Other Expenses reflecting less expenditure on private legal practitioners than had been anticipated in the budget. Refer note 2(f).
- higher than budgeted revenue from the sale of goods and services reflecting the receipt of greater funding from the Expensive Commonwealth Criminal Cases Fund and additional cost recoveries in legal cases than originally anticipated. Refer note 3(a).
- additional revenue from investments resulting from higher cash balances invested and better than anticipated investment returns. Refer note 3(b).

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

- higher than budgeted funding from the Public Purpose Fund for service delivery enhancements. These enhancements will result in additional expenses equal to the funding provided; however there was a timing difference between the receipt of the revenue and the full impact of the expense increases. Refer note 3(c).

Balance Sheet**Current Assets**

Current assets are \$12.343m higher than budget and predominantly due to higher cash balances held than was expected in the budget. This resulted from higher than expected revenue received from funders, higher interest revenue and lower expenditure on other expenses.

Non-Current Assets

Non-current assets were \$1.312m lower than budget and due mainly to:

- lower than expected expenditure on intangible assets due to a change in the timing of expenditure on the replacement of the Commission's core business system.
- a reduction in receivables.

Current Liabilities

The increase in current liabilities of \$10.416m compared to budget is predominantly due to the recognition of recreation and unconditional long service leave as current liabilities in accordance with Australian Equivalents to International Financial Reporting Standards, which was not reflected in the budget.

Non-Current Liabilities

The reduction in non-current liabilities of \$15.502m is predominantly due to:

- the change in classification of recreation leave and unconditional long service leave from a non-current liability to a current liability.
- an improvement in the net superannuation position for defined benefit superannuation schemes held on the Commission's behalf by the SAS Trustee Corporation which resulted in a downward non-cash adjustment of \$12.098m. This adjustment fully extinguished the liability for superannuation that had been anticipated in the budget.

Cash Flow Statement**Cash Flows from Operating Activities**

There was no significant variance in cash payments compared to budget.

Cash receipts exceeded budget by \$12.122m due to higher than budgeted funding from the Expensive Commonwealth Criminal Cases Fund, higher than budgeted recoveries of costs in legal cases, additional investment revenue and higher than budgeted funding from the Public Purpose Fund for service delivery enhancements.

Cash flows from government were lower than budget by \$3.760m and due to:

- lower than expected expenditure on intangible assets due to a change in the timing of expenditure on the replacement of the Commission's core business system. These funds will be expended in future years.
- the return of funds to the Consolidated Fund due to a delay in the commencement of criminal case processing reforms to the justice system. These reforms were anticipated to commence on 1 July 2005 but delayed till 1 January 2006. Much of the funding returned to the Consolidated Fund has been rolled over to be expended in the 2007–2008 financial year as part of the two year seed funding for the reforms.

Cash Flows from Investing Activities

Cash used in investing activities was \$2.726m lower than budget due to lower than expected expenditure on intangible assets which reflected a change in the timing of expenditure on the replacement of the Commission's core business system. These funds will be expended in future years.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 24 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES | | | | |
| Reconciliation of cash flows from operating activities to the net cost of services as reported in the Operating Statement: | | | | |
| Net cash from operating activities | (18,340) | (14,603) | (18,340) | (14,603) |
| Cash Flows from Government/Appropriations | 82,883 | 79,222 | 82,883 | 79,222 |
| Depreciation and amortisation | 3,281 | 2,406 | 3,281 | 2,406 |
| Expenses Written back | - | 529 | - | 529 |
| (Increase)/decrease in allowance for impairment | 148 | (52) | 148 | (52) |
| Increase/(decrease) in provisions | (7,975) | 5,245 | (7,975) | 5,245 |
| (Increase)/decrease in prepayments and other assets | (3,689) | (560) | (3,689) | (560) |
| (Decrease)/increase in creditors | (210) | (860) | (210) | (860) |
| Loss on disposal of plant and equipment | 8 | 41 | 8 | 41 |
| Net cost of services | 56,106 | 71,368 | 56,106 | 71,368 |
| 25 TRUST FUNDS | | | | |
| The Commission administers, but does not control the funds in the following trusts: | | | | |
| Legal Aid Commission General Trust Fund¹ | | | | |
| Cash balance at the beginning of the financial year | 195 | 195 | 195 | 195 |
| Add: Receipts | - | - | - | - |
| Less: Expenditure | 195 | - | 195 | - |
| Cash balance at the end of the financial year | - | 195 | - | 195 |
| Legal Aid Commission Trust Account² | | | | |
| Cash balance at the beginning of the financial year | 618 | 444 | 618 | 444 |
| Add: Receipts | 1,416 | 1,625 | 1,416 | 1,625 |
| Less: Expenditure | 1,608 | 1,451 | 1,608 | 1,451 |
| Cash balance at the end of the financial year | 426 | 618 | 426 | 618 |

As the Commission performs only a custodial role in respect of trust monies, and because the monies cannot be used for the achievement of its objectives; that is, the definition criteria for assets is not met, trust funds are not brought to account in the financial statements, but are shown in the notes for information purposes. Refer to Note 1(u).

¹Legal Aid Commission General Trust Fund

Pursuant to Section 63(3) of the *Legal Aid Commission Act 1979*, a separate account is maintained for verdict and settlement moneys held on behalf of legally aided persons represented by private practitioners, substantially in the civil law program. The Commission may recover some costs upon finalisation of these matters.

²Legal Aid Commission Trust Account

Pursuant to Section 64A of the *Legal Aid Commission Act 1979*, a Legal Aid Commission Trust Account is maintained for verdict and settlement moneys held on behalf of legally aided persons represented by Commission in-house practitioners. The Commission may recover some costs upon finalisation of these matters.

26 FINANCIAL INSTRUMENTS

The Commission's principal financial instruments are outlined below. These financial instruments arise directly from the Commission's operations or are required to finance the Commission's operations. The Commission does not enter into or trade financial instruments for speculative purposes. The Commission does not use financial derivatives.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

(a) Cash

Cash comprises cash on hand and Commission funds that are held in advance accounts, the general operating bank account and deposits at call and short term with TCorp. Interest is earned on the daily balances of the bank accounts and deposits at call and short term with Tcorp. Refer Notes 12 & 26(c). The average rate of interest earned on bank accounts was 5.02% (2004/05 5.0%).

(b) Receivables

All receivables are recognised as amounts receivable at balance date. Collectability of trade debts is reviewed on an ongoing basis and debts which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. The credit risk is the carrying amount (net of any allowance for impairment). The carrying amount approximates fair value. Interest is charged on overdue trade debtors' accounts under section 71A of the *Legal Aid Commission Act 1979* as amended and applicable interest rates were as follows:

- overdue debt (*Section 31A of Legal Aid Commission Act*) —4.5% (half of local court rate)
- Local Court judgements (*Section 39 of Local Court (Civil Claims) Act*) —9.0%
- Family Court judgements (*Section 117B of Family Law Court Act*)—10.25%.

(c) Authority Deposits

The Commission has placed funds on deposit with TCorp, which has been rated "AAA" by Standard and Poor's. These deposits are similar to money market or bank deposits and can be placed "at call" or for a fixed term. The interest rate payable by Tcorp is negotiated initially and is fixed for the term of the deposit.

| | 2006 Carrying Amount \$'000 | 2006 Net Fair Value \$'000 | 2005 Carrying Amount \$'000 | 2005 Net Fair Value \$'000 |
|--------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| At call | 6,701 | 6,701 | 7,101 | 7,101 |
| Less than one year | 45,000 | 45,000 | 28,000 | 28,000 |
| Total | 51,701 | 51,701 | 35,101 | 35,101 |

The deposits at balance date were earning an average interest rate of 5.74% (2004/05 5.58%), while over the year the average interest rate was 5.59% (2004/05 5.41%) on a weighted average deposit of \$58.963m (2004/05 \$45.031m) during the year. No deposits were held for more than one year.

(d) Bank Overdraft

The Commission does not have a bank overdraft facility.

(e) Payables and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made within 14 days from the date of the receipt of the invoice. The Commission did not incur any penalty interest for late payment of claims.

27 THE FINANCIAL IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

The Commission has applied the AEIFRS for the first time in the 2005-06 financial report. The key areas where changes in accounting policies have impacted the financial report are disclosed below. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts arise from options in AEIFRS that were not available or not applied under previous AGAAP. The Commission has adopted the options mandated by NSW Treasury for all NSW public sector agencies. The impacts disclosed below reflect Treasury's mandates and policy decisions.

The impacts of adopting AEIFRS on total equity and surplus as reported under previous AGAAP are shown below. There are no material impacts on the Commission's cash flows.

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

(a) Reconciliations – 1 July 2004 and 30 June 2005

Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:

| | Notes | 30 June 2005** \$'000 | 1 July 2004* \$'000 |
|---|-------|--------------------------|------------------------|
| Total equity under previous AGAAP | | 26,833 | 12,116 |
| Adjustments to accumulated funds | | | |
| Derecognition of intangible assets | i | (30) | (90) |
| Defined benefit superannuation adjustment for change in discount rate | ii | (12,870) | (6,497) |
| Effect of discounting long-term annual leave | iii | 55 | 104 |
| Recognition of restoration costs | iv | (501) | - |
| Adjustments to other reserves | | | |
| Nil | | - | - |
| Total equity under AEIFRS | | 13,487 | 5,633 |

* = adjustments as at the date of transition

** = cumulative adjustments as at date of transition plus the year ended 30 June 2005

Reconciliation of surplus under AGAAP to surplus under AEIFRS:

| Year ending 30 June 2005 | Notes | \$'000 |
|---|-------|---------------|
| Surplus under AGAAP | | 14,717 |
| Derecognition of intangible assets | i | 60 |
| Defined benefit superannuation adjustment for change in discount rate | ii | (6,373) |
| Effect of discounting long-term annual leave | iii | (49) |
| Recognition of restoration costs | iv | (501) |
| Surplus under AEIFRS | | 7,854 |

Based on the above, if AEIFRS were applied in 2004-05 this would increase the Net Cost of Services from \$64,505 to \$71,368.

- i. AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. Previous AGAAP permitted some research and development costs to be capitalised when certain criteria were met. As a result, some previously recognised intangible assets were derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments and decrements have been derecognised and intangible assets recognised at amortised cost. As derecognition had occurred at balance date 1 July 2004, a write-back of expenses and accumulated depreciation was required when the derecognition was actually brought to account at 30 June 2005. This has reduced the amount of intangible assets by a smaller amount and increased the relevant amortisation expense by \$0.060m for 30 June 2005. The research expense will also decrease by \$0.060m for 30 June 2005.
The adoption of AASB 138 has also resulted in certain reclassifications from property, plant and equipment to intangible assets (e.g. computer software).
- ii. AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. Where the superannuation obligation is not assumed by the Crown, this will increase the defined benefit superannuation liability (or decrease the asset for those agencies in an overfunded position) and change the quantum of the superannuation expense. The superannuation liability increased by \$6.373m and a corresponding increase in the superannuation expense was recognised for 30 June 2005.
- iii. AASB 119 *Employee Benefits* requires present value measurement for all long-term employee benefits. Previous AGAAP provided that wages, salaries, annual leave and sick leave were measured at nominal value in all circumstances. The Commission has long-term annual leave benefits and accordingly now measures these benefits

LEGAL AID COMMISSION OF NEW SOUTH WALES

Notes to the Financial Statements for the Year Ended 30 June 2006

at present value, rather than nominal value, thereby decreasing the employee benefits liability. This also decreases employee benefits expense by \$0.049m for 30 June 2005.

- iv. AASB 116 requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. These restoration costs must be depreciated and the unwinding of the restoration provision must be recognised as a finance expense. This treatment was not required under previous AGAAP. This has increased provisions by \$2.173m and the net carrying amount of property, plant and equipment by \$2.173m at 1 July 2004. Depreciation expense has increased by \$0.338m and finance costs have increased, as the present value discount unwinds, by \$0.163m for 30 June 2005.

(b) Financial Instruments – 1 July 2005 first time adoption impacts

As discussed in Note 1(c), the comparative information for 2004-05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005 and there were no financial impacts for the Commission on the 1 July 2005 AEIFRS operating result and opening equity. The Commission has adopted the options mandated by NSW Treasury for all NSW public sector agencies.

(c) Grant recognition

The Legal Aid Commission, a not-for-profit entity, has applied the requirements in AASB 1004 *Contributions* regarding contributions of assets (including grants) and forgiveness of liabilities. There are no differences in the recognition requirements between the new AASB 1004 and the previous AASB 1004. However, the new AASB 1004 may be amended by proposals in Exposure Draft (ED) 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*. If the ED 147 approach is applied, revenue and/or expense recognition will not occur until either the Commission supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied. ED 147 may therefore delay revenue recognition compared with AASB 1004, where grants are recognised when controlled. However, at this stage, the timing and dollar impact of these amendments is uncertain.

28 RELATED PARTY

The Legal Aid Commission provided management, accounting and administrative services to its special purpose service entity, the Office of the Legal Aid Commission, for no charge. The total value of the services rendered cannot be reliably measured.

29 AFTER BALANCE DATE EVENTS

No events have occurred subsequent to balance date, which will materially affect the financial statements.

END OF AUDITED FINANCIAL REPORT

OFFICE OF THE LEGAL AID COMMISSION FINANCIAL REPORT

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OFFICE OF THE LEGAL AID COMMISSION

Independent Audit Report

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

Office of the Legal Aid Commission

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Office of the Legal Aid Commission (the Office):

- presents fairly the Office's financial position as at 30 June 2006 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope***The Financial Report and Chief Executive Officer's Responsibility***

The financial report comprises the operating statement, statement of changes in equity, balance sheet, cash flow statement and accompanying notes to the financial statements for the Office, for the year ended 30 June 2006.

The Chief Executive Officer of the Office is responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Chief Executive Officer in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

OFFICE OF THE LEGAL AID COMMISSION

Independent Audit Report

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Chief Executive Officer had not fulfilled his reporting obligations.

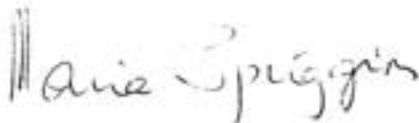
My opinion does not provide assurance:

- about the future viability of the Office,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



M T Spriggins
Director, Financial Audit Services

SYDNEY
19 October 2006

OFFICE OF THE LEGAL AID COMMISSION

Statement by Chief Executive Officer

Pursuant to Section 41C (1B) of the *Public Finance and Audit Act 1983*, and in accordance with a resolution of the Office of Legal Aid Commission, we declare on behalf of the Office that in our opinion:

1. The accompanying financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the applicable clauses of the *Public Finance and Audit Regulation 2005*, applicable Australian Accounting Standards, other mandatory professional reporting requirements and Treasury Accounting Policy Statements.
2. The accompanying financial statements exhibit a true and fair view of the financial position of the Office of the Legal Aid Commission as at 30 June 2006 and transactions for the year then ended.
3. There are no circumstances that render any particulars included in the financial statements to be misleading or inaccurate.



Bill Grant
Chief Executive Officer



Ra Jennings
Acting Chief Finance Officer

18 October 2006

OFFICE OF THE LEGAL AID COMMISSION

Start Of Audited Financial Statements

Operating Statement for the Year Ended 30 June 2006

| | Notes | Actual 2006 \$'000 | Actual 2005 \$'000 |
|---|-------|--------------------------|--------------------------|
| Expenses excluding losses | | | |
| Operating expenses | | | |
| Employee related | 2 | 44,363 | 56,840 |
| Total Expenses excluding losses | | 44,363 | 56,840 |
| Less: | | | |
| Revenue | | | |
| Personnel services | 3 | 44,363 | 56,840 |
| Total Revenue | | 44,363 | 56,840 |
| Net Cost of Services | 13 | - | - |
| SURPLUS / (DEFICIT) FOR THE YEAR | | - | - |

The accompanying notes form part of these financial statements

OFFICE OF THE LEGAL AID COMMISSION

Statement of Changes in Equity for the Year Ended 30 June 2006

| Notes | Actual 2006 \$'000 | Actual 2005 \$'000 |
|---|--------------------------|--------------------------|
| TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY | - | - |
| Surplus / (deficit) for the Year | - | - |
| TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR | - | - |

The accompanying notes form part of these financial statements

OFFICE OF THE LEGAL AID COMMISSION

Balance Sheet as at 30 June 2006

| | Notes | Actual 2006 \$'000 | Actual 2005 \$'000 |
|--------------------------------------|-------|--------------------------|--------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Receivables | 8 | 16,629 | 24,591 |
| Other | 9 | 2,861 | - |
| Total Current Assets | | 19,490 | 24,591 |
| Non-Current Assets | | | |
| Receivables | 8 | 1,287 | 1,262 |
| Total Non-Current Assets | | 1,287 | 1,262 |
| Total Assets | | 20,777 | 25,853 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Payables | 10 | 514 | 301 |
| Provisions | 11 | 16,115 | 24,290 |
| Other | 12 | 2,861 | - |
| Total Current Liabilities | | 19,490 | 24,591 |
| Non-Current Liabilities | | | |
| Provisions | 11 | 1,287 | 1,262 |
| Total Non-Current Liabilities | | 1,287 | 1,262 |
| Total Liabilities | | 20,777 | 25,853 |
| Net Assets | | - | - |
| EQUITY | | | |
| Accumulated Funds | | - | - |
| Total Equity | | - | - |

The accompanying notes form part of these financial statements

OFFICE OF THE LEGAL AID COMMISSION

Cash Flow Statement for the Year Ended 30 June 2006

| | Notes | Actual 2006 \$'000 | Actual 2005 \$'000 |
|---|-------|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments | | | |
| Employee related | | (55,161) | (52,376) |
| Total Payments | | (55,161) | (52,376) |
| Receipts | | | |
| Legal Aid Commission - personnel services | | 55,161 | 52,376 |
| Total Receipts | | 55,161 | 52,376 |
| NET CASH FLOWS FROM OPERATING | 13 | - | - |
| NET INCREASE IN CASH | | | |
| Opening cash and cash equivalents | | - | - |
| CLOSING CASH AND CASH EQUIVALENTS | | - | - |

The accompanying notes form part of these financial statements

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Reporting entity**

The Office of the Legal Aid Commission is a Division of the Government Service, established pursuant to Part 1 of Schedule 1 to the *Public Sector Employment and Management Act 2002*. It is a not-for-profit entity as profit is not its principal objective. It is consolidated as part of the Legal Aid Commission of New South Wales Accounts. It is domiciled in Australia and its principal office is at 323 Castlereagh Street, Haymarket, Sydney. The Office of the Legal Aid Commission's objective is to provide personnel services to the Legal Aid Commission of New South Wales, the parent entity, at cost.

The financial report was authorised for issue by the Chief Executive Officer on 18 October 2006.

(b) Basis of preparation

This is a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards (which include Australian equivalent to the International Financial Reporting Standards (AIFRS), the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and specific directions issued by the Treasurer.

Generally, the historical cost basis of accounting has been adopted and the financial report does not take into account changing money values or current valuations.

The accrual basis of accounting has been adopted in the preparation of the financial report, except for cash flow information.

Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial report.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of Compliance

This is the first financial report prepared based on AIFRS and comparatives for the Year Ended 30 June 2005 have been restated accordingly, except as stated below.

In accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and Treasury Mandates, the date of transition to AASB 132 *Financial Instruments: Recognition and Measurement* has been deferred to 1 July 2005. As a result, comparative information for these two Standards is presented under the previous

Australian Accounting Standards which applied to the Year Ended 30 June 2005.

The financial instrument accounting policies for 2005/06 are specified in Notes 1(e), 1(f) and 1(i) below.

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognised when the service is provided and only to the extent that the associated recoverable expenses are recognised.

(e) Receivables – Year ended 30 June 2006 (refer Note 1(h) for 2004/05 policy)

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

A receivable is measured initially at fair value and subsequently at amortised cost using the effective interest rate method, less any allowance for doubtful debts. A short-term receivable with no stated interest rate is measured at the original invoice amount where the effect of discounting is immaterial. An invoiced receivable is due for settlement within thirty days of invoicing.

If there is objective evidence at year end that a receivable may not be collectable, its carrying amount is reduced by means of an allowance for doubtful debts and the resulting loss is recognised in the income statement.

Receivables are monitored during the year and bad debts are written off against the allowance when they are determined to be irrecoverable. Any other loss or gain arising when a receivable is derecognised is also recognised in the income statement.

(f) Payables – Year ended 30 June 2006 (refer Note 1(h) for 2004/05 policy)

Payables include accrued wages, salaries, and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A short-term payable with no stated interest rate is measured at historical cost if the effect of discounting is immaterial.

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

(g) Employee benefit provisions and expenses

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement. Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date.

Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Long-term long service leave and annual leave (ie that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds (9.74%).

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments.

All other employee benefit liabilities (ie for benefits falling due wholly within twelve months after reporting date) are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement for superannuation and long service leave is the net total of current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains or losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

(h) Financial instruments accounting policy for 2004/05 comparative period*Receivables*

Receivables are recognised and carried at cost, based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Payables

These amounts represent liabilities for goods and services provided to the agency.

(i) Financial Instruments – 1 July 2005 first time adoption impacts

As discussed in Note 1(c), the comparative information for 2004-05 for financial instruments has not been restated and is presented in accordance with previous AGAAP. AASB 132 and AASB 139 have been applied from 1 July 2005 and there were no financial impacts for the Office on the 1 July 2005 AEIFRS operating result and opening equity. The Office has adopted the options mandated by NSW Treasury for all NSW public sector agencies.

(j) New Australian Accounting Standards issued but not effective

The following new Accounting Standards have not been applied and are not yet effective:

- AASB 119 (December 2004) *Employee Benefits*;
- AASB 2004-3 amendments to AASB 119 *Employee Benefits*;
- AASB 7 Financial Instruments: *Disclosures*;
- AASB 2005-10 amendments to AASB 7 *Financial Instruments: Disclosures*.

The possible impact of these Standards in the period of initial application is uncertain.

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

2 EXPENSES**Employee related expenses**

| | 2006 | 2005 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Salaries and wages (including recreation leave) | 46,726 | 43,964 |
| Superannuation - defined benefit plans | (10,441) | 4,870 |
| Superannuation - defined contribution plans | 3,019 | 2,970 |
| Long service leave | 1,608 | 1,718 |
| Workers' compensation insurance | 301 | 275 |
| Payroll tax | 3,150 | 3,043 |
| Total | 44,363 | 56,840 |

The Office does not employ staff that are directly involved in day-to-day servicing or maintenance.

No salaries and wages expenditure was capitalised in 2005/06 (\$0.624m in 2004/05).

3 REVENUE**Rendering of services**

| | | |
|----------------------------|---------------|---------------|
| Personnel services revenue | 44,363 | 56,840 |
| Total | 44,363 | 56,840 |

The Office of the Legal Aid Commission provides personnel services to the Legal Aid Commission in terms of the *Public Sector Employment and Management Act 2002* (PSEMA) and the recent *Public Sector Employment Legislation Amendment Act 2006* (PSELLA) at cost.

4 INDIVIDUALLY SIGNIFICANT ITEMS

The Office's financial position for the State Authorities Superannuation schemes changed from an unfunded liability in 2004/05 to a net surplus at 30 June 2006 resulting in \$12.098m being taken up as a reduction to the superannuation expense for the year.

| | | |
|--|--------------|----------------|
| State Authorities Superannuation schemes surplus / (deficit) | 2,530 | (9,568) |
| Total | 2,530 | (9,568) |

Refer Notes 2, 9, 11.

5 ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE ENTITLEMENTS AND OTHER LIABILITIES

There are no liabilities and/or expenses that have been assumed by the Crown Entity or other government agencies.

6 TRANSFER PAYMENTS

The Office did not have any transfer payments in 2005/06 (nil in 2004/05).

7 PROGRAMS / ACTIVITIES OF THE OFFICE

The Office of the Legal Aid Commission provides personnel services to the Legal Aid Commission so that the Commission may deliver legal services to eligible persons under Commonwealth law and State legislation and undertake community legal education and provide advice to the socially and economically disadvantaged.

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

8 CURRENT / NON-CURRENT ASSETS - RECEIVABLES**Current**

Legal Aid Commission - accrued salaries, wages and on-costs¹

Legal Aid Commission - provision for employee benefits¹

Total Current**Non-Current**

Legal Aid Commission - provision for employee benefits¹

Total Non-Current

¹All expenses incurred by the Office in providing personnel services to the Legal Aid Commission are recovered from the Commission as they are incurred at cost. Current and non-current employee benefits are measured in accordance with AASB 119 and include recreation leave, long service leave, superannuation and related on-costs. Refer Note 11.

9 CURRENT ASSETS - OTHER

Prepaid Superannuation Contributions Reserve¹

Total

¹Represents the balance of the Prepaid Superannuation Contributions Reserve held by the State Authorities Superannuation Trustee Corporation (STC) for SASS and SANCS in 2005/06 (deficit of 3.270m in 2004/05). The Prepaid Superannuation Contributions Reserve includes interest earned by the reserve.

The Pooled Fund

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)
- State Superannuation Scheme (SSS).

These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

Refer Notes 2, 4 & 11.

The balances of the superannuation funds that are prepaid at 30 June 2006 are as follows:

| | SASS | SANCS | SSS | Total |
|--|---------------|---------------|---------------|---------------|
| Members Numbers | | | | |
| Contributors | 107 | 154 | 47 | |
| Deferred benefits | - | - | 11 | |
| Pensioners | - | - | 26 | |
| Pensions fully commuted | - | - | 14 | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accrued liability | 18,379 | 4,232 | 38,504 | 61,115 |
| Less: Estimated reserve account closing balance | 20,380 | 5,092 | 38,173 | 63,645 |
| Prepaid Contributions / (Unfunded Liability) as at 30/06/06 | 2,001 | 860 | (331) | 2,530 |

The calculation of SSS, SASS and SANCS liabilities was performed by the Actuary, William Mercer Ltd and is based on the requirements of AASB 119.

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

| | 2006 \$'000 | 2005 \$'000 |
|--|-----------------|----------------|
| Assets and liabilities recognised in the balance sheet | | |
| Present value of defined benefit obligations | 61,115 | 63,196 |
| Fair value of plan assets | (63,645) | (53,628) |
| | (2,530) | 9,568 |
| Surplus in excess of recovery available from schemes | - | - |
| Unrecognised past service cost | - | - |
| Net (asset)/liability disclosed in balance sheet | (2,530) | 9,568 |
| Movement in net liability/(asset) recognised in the balance sheet | | |
| Net (asset)/liability at start of the year | 9,568 | 6,282 |
| Net expense as recognised in operating statement | (10,441) | 4,870 |
| Contributions | (1,657) | (1,584) |
| Net (asset)/liability disclosed in balance sheet | (2,530) | 9,568 |
| Total expense recognised in operating statement | | |
| Current service cost | 1,641 | 1,515 |
| Interest on obligation | 3,547 | 3,277 |
| Expected return on plan assets | (4,066) | (3,405) |
| Net actuarial losses (gains) recognised in year | (11,563) | 3,483 |
| Change in surplus in excess of recovery available from schemes | - | - |
| Past service cost | - | - |
| Losses (gains) on curtailments and settlements | - | - |
| Total included in "employee benefits expense" | (10,441) | 4,870 |
| Actual return on plan assets | 8,600 | 6,128 |

Valuation method and principal actuarial assumptions at reporting date

(i) The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

| (ii) Economic Assumptions | 30-Jun-06 | 30-Jun-05 |
|-----------------------------------|---------------------------------------|-----------|
| Discount rate | 5.9% pa | 5.2% pa |
| Expected return on plan assets | 7.6% | 7.3% |
| Expected rate of salary increases | 4.0% pa to 2008 3.5% pa thereafter | 4.0% pa |
| Expected rate of CPI increase | 2.5% pa | 2.5% pa |

10 CURRENT LIABILITIES - PAYABLES

| | 2006 \$'000 | 2005 \$'000 |
|--------------------------------------|----------------|----------------|
| Current | | |
| Accrued salaries, wages and on-costs | 514 | 301 |
| Total Current | 514 | 301 |

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

11 CURRENT / NON CURRENT LIABILITIES - PROVISIONS**Current****Employee benefits and related on-costs**

| | 2006 \$'000 | 2005 \$'000 |
|---|----------------|----------------|
| Provision for recreation leave to be taken within 12 months | 4,023 | 3,846 |
| Provision for recreation leave to be taken after 12 months | 671 | 662 |
| Provision for long service leave to be taken within 12 months | 637 | 872 |
| Provision for long service leave to be taken after 12 months | 8,930 | 7,851 |
| Provision for related on-costs | 1,523 | 1,491 |
| Superannuation unfunded liability ¹ | 331 | 9,568 |
| Total Current | 16,115 | 24,290 |

¹Represents the balance of the unfunded liability held by the State Authorities Superannuation Trustee Corporation (STC) for the State Superannuation Scheme in 2005/06 (\$6.298m in 2004/05). The liability is net of the reserve account balance for the scheme. Refer Notes 2, 4 & 9.

Non-Current**Employee benefits and related on-costs**

| | | |
|----------------------------------|--------------|--------------|
| Provision for long service leave | 1,136 | 1,078 |
| Provision for related on-costs | 151 | 184 |
| Total Non-Current | 1,287 | 1,262 |

Aggregate employee benefits and related on-costs

| | | |
|--|---------------|---------------|
| Provisions - current | 16,115 | 24,290 |
| Provisions - non-current | 1,287 | 1,262 |
| Accrued salaries, wages and on-costs (Note 10) | 514 | 301 |
| | 17,916 | 25,853 |

12 CURRENT LIABILITIES - OTHER

Liability to Legal Aid Commission¹

| | | |
|--------------|--------------|----------|
| | 2,861 | - |
| Total | 2,861 | - |

¹Represents the balance of the Prepaid Superannuation Contributions Reserve held by the State Authorities Superannuation Trustee Corporation (STC) for SASS and SANCS in 2005/06 (deficit of \$3.270m in 2004/05). The Prepaid Superannuation Contributions Reserve includes interest earned by the reserve account. As all superannuation contributions are recovered from the Legal Aid Commission, any prepaid contributions are therefore repayable to the Commission.

OFFICE OF THE LEGAL AID COMMISSION

Notes to the Financial Statements for the Year Ended 30 June 2006

13 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

Reconciliation of cash flows from operating activities to the net cost of services as reported in the Operating Statement:

Net cash from operating activities

Increase/(decrease) in provisions

(Increase /decrease in prepayments and other assets

(Decrease)/increase in creditors

Net cost of services

| 2006 \$'000 | 2005 \$'000 |
|----------------|----------------|
| - | - |
| (8,150) | 1,902 |
| 5,076 | (1,978) |
| 3,074 | 76 |
| - | - |

14 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Office has no contingent liabilities or assets at 30 June 2006 (nil at 30 June 2005).

15 COMMITMENTS FOR EXPENDITURE

The Office did not have any expenditure commitments in 2005/06 (nil in 2004/05).

16 FINANCIAL INSTRUMENTS

The Office's principal financial instruments are outlined below. These financial instruments arise directly from the Office's operations or are required to finance the Office's operations. The Office does not enter into or trade financial instruments for speculative purposes. The Office does not use financial derivatives.

(a) Receivables

The Office does not have any trade debtors. All receivables are predominantly recoveries from the Legal Aid Commission for personnel expenses incurred. The carrying amount of the receivables is at cost.

(b) Payables

Payables include accrued wages, salaries, superannuation and related on costs (such as payroll tax, fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement. A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted. All payables are measured at face value or historical cost.

17 RELATED PARTY

The Office of the Legal Aid Commission received management, accounting and administrative services from its parent entity, the Legal Aid Commission of NSW, for no charge. The total value of the services rendered cannot be reliably measured.

18 AFTER BALANCE DATE EVENTS

No events have occurred subsequent to balance date, which will materially affect the financial statements.

END OF AUDITED FINANCIAL REPORT

Other information

1. PAYMENT PERFORMANCE

(a) Payments to Creditors

The Commission processed 94.62% of invoices received within 30 days during 2005/06 compared to 93.84% in 2004/05.

| Period | 2006 | | 2005 | |
|----------------|---------------|---------------|---------------|---------------|
| | Invoices | % | Invoices | % |
| Within 30 days | 66,774 | 94.62 | 73,314 | 93.84 |
| Over 30 days | 3,794 | 5.38 | 4,816 | 6.16 |
| Total | 70,568 | 100.00 | 78,130 | 100.00 |

Creditors aged analysis at the end of each quarter is as follows:

| Quarter | Current (ie within due date) \$'000 | Less than 30 days overdue \$'000 | Between 30 and 60 days overdue \$'000 | Between 60 and 90 days overdue \$'000 | More than 90 days overdue \$'000 |
|-----------|--|-------------------------------------|--|--|-------------------------------------|
| September | 1,894 | 79 | 18 | 30 | 351 |
| December | 1,116 | 131 | 20 | 28 | 41 |
| March | 1,465 | 704 | 100 | 30 | 92 |
| June | 238 | 1,047 | 25 | 15 | 92 |

Accounts paid within 30 days by quarter is as follows:

| Quarter | Target % | Achieved % | Amount Paid within 30 Days \$'000 | Total Amount Paid \$'000 |
|-----------|----------|------------|--------------------------------------|-----------------------------|
| September | 100.0 | 95.33 | 20,868 | 21,890 |
| December | 100.0 | 93.37 | 18,509 | 19,758 |
| March | 100.0 | 91.07 | 14,965 | 16,432 |
| June | 100.0 | 96.30 | 29,022 | 30,136 |

(b) Ageing of Unpaid Creditors (Private Practitioners)

Legal creditors at 30 June 2006 and 2005 were aged as follows:

| 0 – 60 days | | 61 – 90 days | | 91 – 120 days | | Over 120 days | | Total | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2005/06 \$'000 | 2004/05 \$'000 | 2005/06 \$'000 | 2004/05 \$'000 | 2005/06 \$'000 | 2004/05 \$'000 | 2005/06 \$'000 | 2004/05 \$'000 | 2005/06 \$'000 | 2004/05 \$'000 |
| 1,310 | 2,378 | 15 | 230 | 92 | 18 | 0 | 228 | 1,417 | 2,854 |
| 92.45% | 83.33% | 1.06% | 8.05% | 6.49% | 0.62% | 0 | 8.0% | 100% | 100% |

Other information

The above table indicates 92.45% (2004/05 83.33%) of invoices on hand are aged under 60 days of invoice date. Due to the complexity of some matters, payment of private practitioner accounts may be deferred for a number of reasons, including:

1. The account is not sufficiently detailed and further information has to be obtained from the private practitioner.
2. There is a dispute over whether the work billed for was actually authorised under the terms of the grant of aid.
3. The account has been prepared using an inappropriate scale of fees and has to be amended by the Commission.
4. The private practitioner has rendered an account before a court judgement has been handed down, and assessment of the account has been deferred until judgement, in order to ensure the application of the appropriate scale of fees.
5. The private practitioner has not responded to an inquiry initiated by the Commission as a result of the proceedings, which may finalise in a Section 46 cost recovery.
6. Party/party costs in favour of the legally assisted person have yet to be recovered.

In these circumstances, a large proportion of the "overdue" accounts are not in fact overdue, but deferred. This is especially so in the civil law practice.

2. ANNUAL REPORTING LEGISLATION REQUIREMENTS

The following information, not disclosed elsewhere in these accounts and reports, is required to be disclosed under annual reporting legislation.

The *Legal Aid Commission Act 1979* prescribes the method by which the Commission is to administer its finances. The Act provides for the establishment of a Legal Aid Fund for legal and administrative payments, and the maintenance of a separate account for monies received for and on behalf of legally assisted persons represented by private practitioners and those represented by Commission solicitors.

Funding

A four and a half year agreement between the Commission and the Commonwealth for the provision of legal aid in Commonwealth matters commenced in 2004-05. The agreement provides for a base funding amount which is indexed annually in accordance with the indexation figures used by the Australian government in the annual budget process.

Funding provided under the agreement is as follows:

| Year | \$'000 |
|--------------|----------------|
| 2004/05 | 44,084 |
| 2005/06 | 45,054 |
| 2006/07 | 45,871 |
| Total | 135,009 |

The State Government provides annual funding for State based matters from the Consolidated Fund and for capital projects including the progressive upgrade of the Commissions information systems.

An annual contribution is also received from the Public Purpose Fund for State based matters. Refer to Note 3(c).

Certain clients utilising legal aid contribute to the cost of their representation. Refer Note 3(a).

Other information

Audit Remuneration

Audit fees comprise

| | 2006 \$'000 | 2005 \$'000 |
|------------------------------|----------------|----------------|
| Deloitte Touche Tohmatsu | 128 | 76 |
| Audit Office of NSW | 116 | 60 |
| Thomas Davis & Co | 2 | 2 |
| Internal Audit Bureau of NSW | - | 2 |
| Total | 246 | 140 |

Consultants

Engagements equal to or more than \$30,000

| Consultant | \$ | Purpose |
|-------------------|---------------|--|
| CFW Spice Pty Ltd | 19,875 | Review of Community Legal Centre Funding |
| Total | 19,875 | (\$132,835 in 2004/05) |

Engagements equal to less than \$30,000

| | |
|--------------------------|----------------|
| Total Number | 14 |
| Total Consultants | 171,655 |

Charitable and Deductible Gift Recipient Institution

The Legal Aid Commission is a Charitable Institution and a Deductible Gift Recipient institution under The New Tax System. Gifts to the Commission of monies or property with a value of \$2, or more, may be claimed by the donor as a tax deduction.

Unclaimed Monies

Pursuant to Section 14 of the Public Finance and Audit Act 1983, all unclaimed monies are forwarded to the Treasury for credit to the Consolidated Fund and are available for refund from that account. No unclaimed amounts have been held in the accounts of the Legal Aid Commission.

Risk Management

The Legal Aid Commission maintains insurance policies for motor vehicles, workers compensation, miscellaneous, property and public liability with the NSW Treasury Managed Fund.

The 2005/06 premiums for workers compensation insurance increased by 19.87% to \$320,430 (2004/05 \$267,310). The motor vehicle insurance premium decreased, by 4.40% to \$27,190 (2004/05 \$28,440). The premiums were based on a mixture of claims experience benchmarks for similar organisations and a premium incentive system.

Worker's Compensation

The cost incurred to 30 June 2006 of new claims reported in 2005/06 was \$139,026 compared to \$123,031 in 2004/05, an increase of \$15,995.

The number of accepted claims decreased from 32 in 2004/05 to 26 in 2005/06.

There were two mental stress claims in the 2005/06 reporting period, however both were ultimately declined after a period of provisional liability. These declined claims totalled approximately \$30,545, or 21.97% of the total claims cost for 2005/06.

There were 8 fall/slip and 9 body stress claims amounting to \$100,416 in 2005/06, or 72.23% of the total claims cost. The number of claims in 2004/05 for fall/slip and body stress was 17, however, the cost increased by \$76,830 from \$23,586 in 2004/05 to \$100,416 in 2005/06.

The number of full-time equivalent (FTE) staff (on average) for this financial year was 710, an increase of 34 from 676 in 2004/05. This equates to an average claim cost of \$195.94 per staff member compared to \$181.98 per staff member in 2004/05.

Other information

Motor Vehicle Claims

The number of motor vehicle claims was 11 in 2005/06 (7 in 2004/05) which incurred a cost of \$18,373 (\$39,426 in 2004/05). The number of vehicles in the Commission fleet decreased by 1 to 47 in 2005/06 (an increase of 5 to 48 in 2004/05), giving an average claim cost per vehicle of \$390 (\$821 in 2004/05).

Investment Performance

The Commission is authorised under section 65 of *The Legal Aid Commission Act 1979* to invest funds that are not immediately required. The avenues of investment are restricted to any securities approved by the Treasurer on the recommendation of the Minister.

During 2005/06 the Commission invested its available funds in the Treasury Corporation's 11am call account. The average yield for this account was 5.49% (5.28% in 2004/05). Since November 2000, the Commission has also invested funds in 30 days Fixed Term deposits with the Treasury Corporation. The average yield from this deposit was 5.59% (5.47% in 2004/05). The Commission provides for its daily expenditure needs via an on-call account which is domiciled with the Commonwealth Bank of Australia. The average yield obtained from this account was 5.02% (5.0% in 2004/05). Income of \$3.298m was derived from the investment of Commission funds during 2005/06 compared to \$2.434m in 2004/05. The variation is due to higher average cash balances held during the year.

2006/07 Budget Estimates

| | \$'000 |
|--------------------------|---------------|
| Total Income | 170,368 |
| Total Expenditure | 170,368 |
| Operating Surplus | - |

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